PRUDENTIAL

Adding more to life

Prudential plc 2017 Half Year Financial Report

HK Stock Code: 2378

By helping to take the financial risk out of life's big decisions, Prudential creates long-term value for our customers, our shareholders and the communities we serve.

Adding more to life.

www.prudential.co.uk

First interim dividend

14.5p

+12% on half year 2016

Front cover:
Prudential Vietnam customers Thanh Tam and Thi Tam.

Back cover:
Jackson customer Doris.

Above:
Prudential Chairman's Challenge volunteer, Indonesia.

Contents

Summary financials

	Half year 2017 £m	Half year 2016 £m	Change on actual exchange rate basis	Change on constant exchange rate basis
IFRS operating profit based on longer-term investment returns[1]	2,358	2,044	15%	5%
Underlying free surplus generated[1,3]	1,845	1,615	14%	6%
Life new business profit[1,2]	1,689	1,257	34%	20%
IFRS profit after tax[6]	1,505	687	119%	109%
Net cash remittances from business units	1,230	1,118	10%	–

	Half year 2017 £bn	Full year 2016 £bn	Change on actual exchange rate basis
IFRS shareholders' funds	15.4	14.7	5%
EEV shareholders' funds	40.5	39.0	4%
Group Solvency II capital surplus[4,5]	12.9	12.5	3%

1 Following its sale in May 2017, the operating results exclude the contribution of the Korea life business. All comparative results have been similarly adjusted.
2 New business profit on business sold in the period, calculated in accordance with EEV principles.
3 Underlying free surplus generated based on operating movements from long-term business (net of investment in new business) and that generated from asset management operations. Further information is set out in note 10 of the EEV basis results.
4 The Group shareholder capital position excludes the contribution to own funds and the solvency capital requirement from ring-fenced with-profits funds and staff pension schemes in surplus. The solvency positions include management's estimate of transitional measures reflecting operating and market conditions at the valuation date. The estimated Group shareholder surplus would increase from £12.9 billion to £13.6 billion at 30 June 2017 if the approved regulatory transitional amount was applied instead.
5 Before allowing for first interim dividend (31 December 2016: second interim dividend).
6 IFRS profit after tax reflects the combined effects of operating results, negative short-term fluctuations in investment variances, results attaching to the sold Korea life business and the total tax charge for the period.

Measuring our performance

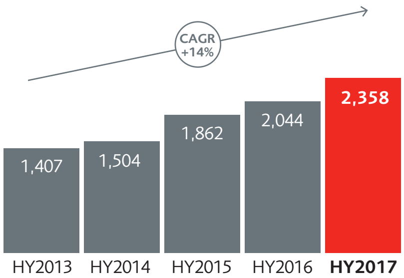
To create sustainable economic value for our shareholders we focus on delivering growth and cash while maintaining appropriate capital. We aim to demonstrate how we generate profits under different accounting bases, reflecting the returns we generate on capital invested, and highlight the cash generation of our business.

What we measure and why

Performance[1]

IFRS operating profit based on longer-term investment returns[2,3] £m

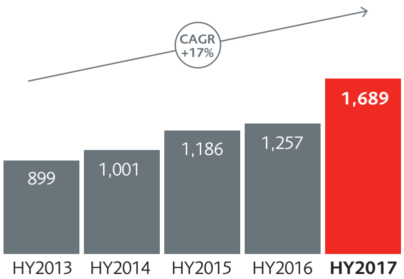
The Group's business involves entering into long-term contracts with customers, and hence the Group manages its associated assets and liabilities over a longer-term time horizon. This enables the Group to manage a degree of short-term market volatility. Therefore, IFRS operating profit based on longer-term investment returns gives a more relevant measure of the performance of the business. Other items are excluded from IFRS operating profit to allow more relevant period on period comparisons of the trading operations of the Group, eg the effects of material corporate transactions are excluded.



Group IFRS operating profit was 5 per cent higher on a constant currency basis (up 15 per cent on an actual exchange rate basis). The Group's performance was driven by our Asia life and asset management operations which saw IFRS operating profit increase 16 per cent (up 31 per cent on an actual exchange rate basis) on growth in the in-force portfolio. In the US, total IFRS operating profit was up 8 per cent (up 22 per cent on an actual exchange rate basis). In the UK, IFRS operating profit from our insurance and asset management operations increased by 4 per cent[11].

EEV new business profit[3,4] £m

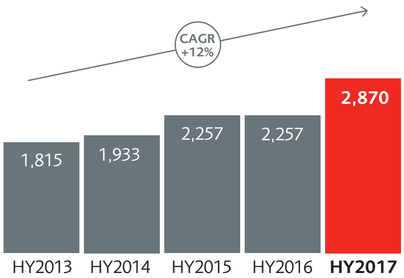
Life insurance products are, by their nature, long-term and generate profit over a number of years. Embedded value reporting provides investors with a measure of the future profit streams of the Group. EEV new business profit reflects the value of future profit streams which are not fully captured in the period of sale under IFRS reporting.



EEV new business profit was 20 per cent higher (up 34 per cent on an actual exchange rate basis), reflecting higher sales volumes and more favourable economics.

EEV operating profit[3,4] £m

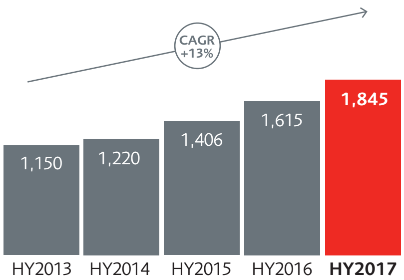
EEV operating profit is provided as an additional measure of profitability. This measure includes EEV new business profit, the change in the value of Group's long-term in-force business, and profit from our asset management and other businesses. As with IFRS, EEV operating profit reflects the underlying results based on longer-term investment returns.



Group EEV operating profit based on longer-term investment returns was 15 per cent higher (27 per cent on an actual exchange rate basis), reflecting higher new business profits and the growth in profits from our in-force business.

Group free surplus generation[3,5] £m

Free surplus generation is used to measure the internal cash generation of our business units. For insurance operations it represents amounts maturing from the in-force business during the period less investment in new business and excludes other non-operating items. For asset management it equates to post-tax IFRS operating profit for the period.



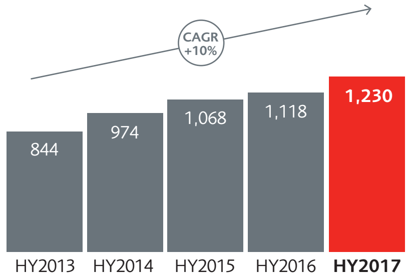
Underlying free surplus generation increased by 6 per cent on a constant currency basis (up 14 per cent on an actual exchange rate basis), reflecting a higher contribution from our growing in-force book of business and continued discipline of focusing on high-return new business with fast payback periods.

What we measure and why

Performance[1]

Business unit remittances[6] £m

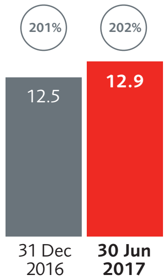
Remittances measure the cash transferred from business units to the Group. Cash flows across the Group reflect our aim of achieving a balance between ensuring sufficient net remittances from business units to cover the dividend (after corporate costs) and the use of cash for reinvestment in profitable opportunities available to the Group.



Cash remittances from our business units to the Group increased by 10 per cent compared to 2016, with well-balanced contributions across all of our geographic regions.

Group Solvency II capital surplus[7,10] £bn

Prudential is subject to the risk-sensitive solvency framework required under European Solvency II Directives (Solvency II) as implemented by the Prudential Regulation Authority in the UK. The Solvency II surplus represents the aggregated capital (own funds) held by the Group, less solvency capital requirements.



The high quality and recurring nature of our operating capital generation and our disciplined approach to managing balance sheet risk has resulted in the Group's shareholders' Solvency II capital surplus being estimated at £12.9 billion at 30 June 2017 (equivalent to a solvency ratio of 202 per cent) compared with £12.5 billion (201 per cent) at 31 December 2016.

2017 objectives[3,8]

The Group has reported cumulative underlying free surplus generation of £11.1 billion since 2014, achieving our objective of generating over £10 billion of Group cumulative free surplus between 1 January 2014 and 31 December 2017 six months early. We remain on track to achieve the remaining Asia-focused objectives by the end of this year.

Asia objectives[3]	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Half year 2017 £m	CAGR (since 2012) %	Objectives 2017[10]
Asia life and asset management IFRS operating profit								
Full year								
Reported actuals	909	1,058	1,108	1,286	1,644			>£1,826 million
Constant exchange rate[9]	884	1,058	1,228	1,430	1,641			>15% CAGR
Constant exchange rate change % (year-on-year)	–	20	16	16	15		17	
Half year								
Reported actuals	427	504	508	613	728	953		
Constant exchange rate[9]	411	504	566	665	772	889		
Constant exchange rate change % (year-on-year)	–	23	12	17	16	15		
Asia underlying free surplus generation								
Full year								
Reported actuals	468	565	599	666	859			£0.9 – £1.1 billion
Constant exchange rate[9]	454	565	669	758	872			
Constant exchange rate change % (year-on-year)	–	24	18	13	15			
Half year								
Reported actuals	194	290	303	344	425	553		
Constant exchange rate[9]	185	290	336	380	459	537		
Constant exchange rate change % (year-on-year)	–	57	16	13	21	17		

Group objective for cumulative period 1 January 2014 to 31 December 2017	Actual 1 Jan 2014 to 30 Jun 2017	Objective 1 Jan 2014 to 31 December 2017
Cumulative Group underlying free surplus generation[5] from 2014 onwards	£11.1 billion	> £10 billion

Notes

1 The comparative results shown above have been prepared using the actual exchange rates (AER) basis except where otherwise stated. Comparative results on a constant exchange rate (CER) basis are also shown in financial tables in the Chief Financial Officer's report on the 2017 first half financial performance. CAGR is compound annual growth rate.

2 IFRS operating profit is management's primary measure of profitability and provides an underlying operating result based on longer-term investment returns and excludes non-operating items. Further information on its definition and reconciliation to profit for the period is set out in note B1 of the IFRS financial statements.

3 Following its sale in May 2017, the operating results exclude the contribution of the Korea life business. All comparative results have been similarly adjusted. The relevant 2017 objective (Asia IFRS operating profit) has been adjusted.

4 Embedded value reporting provides investors with a measure of the future profit streams of the Group. The EEV basis results have been prepared in accordance with EEV Principles discussed in note 1 of the EEV basis results. A reconciliation between IFRS and the EEV shareholder funds is included in note II(f) of the Additional financial information.

5 Underlying free surplus generated comprises underlying free surplus generated from the Group's long-term business (net of investment in new business) and that generated from asset management operations. Further information is set out in note 10 of the EEV basis results.

6 Cash remitted to the Group forms part of the net cash flows of the holding company. A full holding company cash flow is set out in note II(a) of Additional financial information. This differs from the IFRS consolidated statement of cash flows which includes all cash flows relating to both policyholders and shareholders' funds. The holding company cash flow is therefore a more meaningful indicator of the Group's central liquidity.

7 Estimated before allowing for first interim dividend.

8 The objectives assume exchange rate at December 2013 and economic assumptions made by Prudential in calculating EEV basis supplementary information for the half year objectives ended 30 June 2013, and are based on regulatory and solvency regimes applicable across the Group at the time the objectives were set. The objectives assume the existing EEV, IFRS and free surplus methodology at December 2013 will be applicable over the period.

9 Constant exchange rates results translated using exchange rates at December 2013.

10 The Group shareholder capital position excludes the contribution to own funds and the solvency capital requirement from ring-fenced with-profits funds and staff pension schemes in surplus. The solvency positions include management's estimate of transitional measures reflecting operating and market conditions at the valuation date. The estimated Group shareholder surplus would increase from £12.9 billion to £13.6 billion at 30 June 2017 if the approved regulatory transitional amount was applied instead.

11 Includes UK life insurance and M&G.

Delivering value to our customers and shareholders

Our successful strategy, innovative products and strong execution have driven growth across all of our main performance measures.

Mike Wells
Group Chief Executive

In the first half of 2017, the performance of the Group has been underpinned by the successful execution of our strategy, driven by the strength of our capabilities and the quality of our products.

Prudential helps to remove uncertainty from the most significant financial moments in the lives of our customers. We provide financial protection against unexpected events such as the diagnosis of critical illness or the loss of a loved one, the opportunity to turn savings into reliable retirement income and the ability to look to the future with confidence. At the same time, we put our customers' money to work by investing in the real economy, fuelling growth and improving the quality of people's lives in the communities in which we work.

Our strategy is focused on markets where the opportunities for us are strongest. In each of these markets, we are developing our product range and improving our distribution and technological capabilities in order to meet the needs of customers as fully as we can.

We are today also announcing an important step forward for our UK businesses. We are combining M&G and Prudential UK & Europe to create a savings and investments business focused on meeting growing customer demand for comprehensive financial solutions. Combining these businesses will allow us to better leverage our considerable scale and capabilities. This will enable us to increase our growth prospects by providing better outcomes for our millions of customers.

Our first-half financial performance

We have continued to make progress in the first half, building on the positive business momentum seen in the second half of 2016.

Our life businesses in Asia remain the key driver of growth for the Group, with a double-digit increase in our profitability, capital generation and cash metrics, as we continue to build out our capabilities and increase our scale across the region. We have also seen a positive performance from our asset management operations, with combined net inflows[1] from external clients at record levels for the period. In our UK life business, consumer appetite for our distinctive PruFund product proposition is supporting high levels of growth in new business sales, while in the US Jackson continues to outperform its peers in the variable annuity market[2].

The Group remains well positioned for growth in its target markets and in the first six months of 2017 generated a 20 per cent[5] increase (34 per cent on an actual exchange rate basis) in new business profit[3] to £1,689 million. This reflects our continued prioritisation of growth in attractive product lines in each of Asia, the US and the UK.

Group IFRS operating profit based on longer-term investment returns[4] increased by 5 per cent[5] (15 per cent on an actual exchange rate basis) to £2,358 million, reflecting growth in Asia, the US and in our UK asset management operations. IFRS operating profit continues to benefit from the recurring nature of our earnings and our focus on income from protection and fee business.

Free surplus generation[6], our preferred measure of cash generation, increased by 6 per cent[5] (14 per cent on an actual exchange rate basis) to £1,845 million after financing investment in new business. With the first-half contribution, we have now exceeded the financial objective we set in December 2013, to generate over £10 billion of Group cumulative free surplus between 1 January 2014 and 31 December 2017, six months early. We remain on track to achieve our Asia objectives by the end of this year.

In Asia, the addition of long-term, high-quality new business is building scale in our in-force portfolio, which underpins growth and security in current and future earnings and cash generation. New business profit[3] was 18 per cent[5] higher (33 per cent on an actual exchange rate basis), with double-digit percentage growth or higher in eight countries, driven by improvements in both agency and bancassurance channels and by our continued focus on health and protection. IFRS operating profit[4] in Asia increased by 16 per cent[5], with free surplus generation[6] up 15 per cent[5] (up 31 per cent and 30 per cent on an actual exchange rate basis respectively). Our Asia-based asset manager, Eastspring Investments, ended the period with total funds under management of £131 billion, 11 per cent higher on an actual exchange rate basis than at the start of the year.

In the US, Jackson's variable annuity business continues to drive earnings, with IFRS operating profit[4] in this product line increasing by 17 per cent on higher asset balances that reflect continued positive net flows and market appreciation. Our business was well prepared for the application of the Department of Labor reforms on 9 June 2017 and has maintained relationships with its key distribution partners. Although some uncertainty remains on the direction of the regulatory process, we continue to develop products and distribution that meet the needs and preferences of the market, backed by a distinctive value proposition that differentiates Jackson from its peers.

In the UK and Europe, M&G and our life operations are both securing significant business flows, driven by the strength of their product performance and market position. At M&G, institutional net inflows of £1.7 billion and record retail net inflows of £5.5 billion have contributed to period-end assets under management on behalf of external clients of £149 billion. Together with internal assets, M&G's total assets under management have increased by 6 per cent to £281 billion since the end of 2016, resulting in a 10 per cent increase in IFRS operating profit[4]. In our UK life operations, new business profit[3] increased by 29 per cent, reflecting growth in flexible personal pensions, backed by the popular PruFund investment option.

We continue to operate with strong, conservatively-managed cash and capital positions at both the Group and local levels. Cash remittances from our business units to the Group increased by 10 per cent to £1,230 million (2016: £1,118 million), with well-balanced contributions across all of our geographic regions. The Group's shareholder Solvency II capital surplus[7] was £12.9 billion at 30 June 2017, equating to cover of 202 per cent[8].

Over the period, IFRS shareholders' funds increased by 5 per cent[9] to £15.4 billion after taking into account profit after tax of £1,505 million (2016: £687 million on an actual exchange rate basis) and other movements including negative foreign exchange movements of £224 million. EEV shareholders' funds increased by 4 per cent[9] to £40.5 billion, equivalent to 1,567 pence per share.

A clear and consistent strategy

This performance demonstrates the success of our clear and consistent strategy, which is focused on three long-term opportunities in Asia, the US and the UK, each driven by a structural and growing demand for our products.

In Asia, we offer products that meet the savings, health and protection needs of the region's fast-growing and increasingly affluent middle class. Over the next five years, nearly 700 million people in Asia are expected to enter the middle class[10], driving sustained and material growth in consumer demand. By 2020, the spending of the middle class in the Asia-Pacific region is expected to surpass that of the US and Europe combined[10].

The rapidly increasing scale of the Asian middle class is creating a growing need for the financial savings and protection products we provide. Those needs are largely unmet today, with the protection gap in Asia estimated at US$45 trillion[11] and private health insurance in some areas accounting for less than a quarter of private healthcare spend[12], while insurance penetration remains extremely low[13]. As a result, there is a clear market opportunity for our products in Asia.

The United States is the world's largest retirement savings market, with 10,000 Americans retiring per day[14], which is a significant opportunity for us as a provider of retirement products and income strategies. Consumers in the US express clear demand for an investment option through which they can grow their savings while protecting income. Our variable annuity products meet this need, making them attractive for people moving into retirement. More than US$16 trillion is invested in adviser-distributed retirement assets in the US[15], while variable annuities account for just US$2 trillion[16] of that amount, demonstrating the scale of the opportunity for us.

There is a similar demand from under-saved populations in Europe. In the United Kingdom the proportion of the population aged over 60 is expected to increase by 50 per cent over the next 20 years[17]. As in the US, the demand for risk-managed investments to fund retirement represents a significant area of growth for our business. Our new combined business, M&G Prudential, will leverage our scale, financial strength and capabilities to continue developing customer-focused solutions and thereby more fully address these needs.

Our customers and products

We address all three of these long-term opportunities through our close attention to the needs of our customers and by continually improving our products and capabilities to meet those needs.

In Asia, our broad-based portfolio of businesses continues to drive our progress. We remain focused on the quality of our execution in addressing distinct consumer needs and opportunities in each of our local markets. In Hong Kong, our track record of introducing innovative features to our range of health and savings products has established us as a leader in the growing critical illness protection segment, and in June we strengthened that track record with the launch of a new lump-sum health insurance policy providing whole-of-life cover against 75 early- to late-stage disease conditions. In mainland China, our long-term joint venture partnership with CITIC is reaching more customers than ever, and China is now our third-largest contributor to new business sales in Asia. We are continuing to build the scale of our platform in China through expansion of our bancassurance and agency distribution, and by launching in new cities such as Taizhou, our 72nd city, in Zhejiang province in July.

In Singapore, we have introduced more flexibility for customers buying private healthcare insurance with market-leading product options to encourage healthy living and help them better manage their healthcare budgets. We also introduced our first DNA-based health and nutrition programme in Singapore, following a successful launch in Hong Kong last year. In Indonesia, we launched a new medical rider, PRUprime healthcare, in February, followed by its syariah version in April. Designed to meet the needs of customers in a higher economic segment, it includes among its features worldwide coverage with emergency hospitalisation in the US and cashless admission at a network of Prudential partner hospitals in Indonesia, Singapore and Malaysia.

Eastspring continues to attract good levels of net inflows and in May, won Asian Investor's prestigious Asia Fund House of the Year award for the second time in three years. In June, Eastspring became the first Asian investor to sign an agreement with International Finance Corporation, a member of the World Bank Group, committing US$500 million to a programme to fund infrastructure projects in emerging markets. This is an example of our commitment to the economies and communities of developing countries.

In the United States, we are continuing to develop our business to ensure that we capture the opportunity presented by the large numbers of Americans reaching retirement age in the next decade. As regulatory developments and industry trends introduce new areas of growth potential in variable annuities, for example in the fee-based advice market, we are adapting our product accordingly, while using our superior platform and distribution capabilities to drive speed-to-market. During the first half of 2017, we launched a fee-based version of our popular Elite Access product, filed a new fee-based version of our leading Perspective variable annuity and saw Jackson maintain relationships with its key distributors post the application of the Department of Labor's fiduciary rule on 9 June 2017. We remain well positioned to build on our strength in the US retirement market.

Our businesses in the UK are serving customers with needs similar to those of consumers in the US. At M&G, we are developing the breadth and the depth of our offering, designing products that align to the outcomes our customers are looking to achieve. Our strong track record of translating innovative investment strategies to commercial success distinguishes M&G from its peers. Our Global Floating Rate High Yield Fund is a clear example of this, offering customers participation in a rising-rate environment through

Group Chief Executive's report – Mike Wells
Continued

investment in high-yield floating-rate notes. Launched in September 2014, it attracted net inflows of £2,259 million in the first half of 2017 and now has assets under management of over £3.5 billion. We are also making good operational progress in our preparations for Brexit, including setting up a new legal structure and SICAV fund range in Luxembourg. These initiatives will ensure that customers retain access to our investment strategies and funds through the most appropriate structure for their needs.

Prudential UK & Europe is responding with agility to regulatory change and consumer preferences following the pensions freedoms introduced in 2015. The strength of our retail sales growth shows how the extension of our popular PruFund investment option to ISAs and retirement products, is meeting customers' demand for proven investment capability and risk-managed solutions as they move towards the latter stages of accumulation and into retirement income. Our Retirement Account provides a flexible personal pension which allows customers to save through single or regular payments, transfer from another pension and take income flexibly, and has proven popular with customers, accumulating funds under management of £4.1 billion since its launch at the end of 2016.

Since 2014, we have also been offering our products to a new and growing middle class in Africa, and just last month we entered our fifth African market, Nigeria, building on our success in Ghana, Kenya, Uganda and Zambia. The conditions for growth in these markets are similar to those in Asia 20 years ago, and we are excited about the long-term outlook for our new businesses in the region.

Our capabilities

We continue to invest in our capabilities across the organisation. We are developing a range of digital innovations that will enable us to serve our customers at greater scale and speed, and we continue to invest in talent. In July, we welcomed Mark FitzPatrick to our executive team as Chief Financial Officer, succeeding Nic Nicandrou, who has taken over from Tony Wilkey as Chief Executive of Prudential Corporation Asia. Mark brings with him significant experience and knowledge of the sector, and I am confident that Nic will lead our Asian business to further success.

Our outlook – long-term growth

Our ability to serve the needs of consumers across the wide footprint of our target markets creates value for our customers and our shareholders. Our strategy is focused on markets where the need for our products is strong and growing, and we continue to develop our products and our capabilities to ensure that we access those opportunities to the fullest.

Global economic conditions remain uncertain and markets remain volatile. However, the strength of the underlying opportunities we are accessing and our proven ability to innovate to create new products and develop our capabilities, along with our ongoing focus on risk management and the strength of our balance sheet, leave us well positioned to continue to grow profitably into the future.

Mike Wells
Group Chief Executive

Notes

1 External net inflows exclude Asia Money Market Fund (MMF) net inflows of £499 million (2016: net inflows of £656 million on an actual exchange rate basis).

2 ©2017 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. 1Q 2017 Morningstar VA Report with Commentary.

3 Embedded value reporting provides investors with a measure of the future profit streams of the Group. The EEV basis results have been prepared in accordance with EEV Principles discussed in note 1 of the EEV basis results. A reconciliation between IFRS and the EEV shareholder funds is included in note II(f) of the Additional financial information.

4 IFRS operating profit is management's primary measure of profitability and provides an underlying operating result based on longer-term investment returns and excludes non-operating items. Further information on its definition and reconciliation to profit for the period is set out in note B1 of the IFRS financial statements. This measure is described further in the Our performance section of the Strategic report in the 2016 Annual Report.

5 Following its sale in May 2017, the operating results exclude the contribution of the Korea life business. The half year 2016 comparative results have been similarly adjusted.

6 Underlying free surplus generated based on operating movements from long-term business (net of investment in new business) and that generated from asset management operations. Further information is set out in note 10 of the EEV basis results.

7 The Group shareholder capital position excludes the contribution to own funds and the solvency capital requirement from ring-fenced with-profits funds and staff pension schemes in surplus. The solvency positions include management's estimate of transitional measures reflecting operating and market conditions at the valuation date. The estimated Group shareholder surplus would increase from £12.9 billion to £13.6 billion at 30 June 2017 if the approved regulatory transitional amount was applied instead.

8 Before allowing for first interim dividend (31 December 2016: second interim dividend).

9 Comparable to 31 December 2016 on an actual exchange rate basis.

10 Brookings Institution, The unprecedented expansion of the global middle class, 2017.

11 Swiss Re, Mortality Protection Gap: Asia-Pacific, 2015.

12 World Bank, Out-of-pocket health expenditure, 2014.

13 OECD, Global insurance market trends, 2016.

14 Social Security Administration, Annual Performance Plan 2012.

15 Cerulli Associates – US Advisor Metrics 2016.

16 LIMRA/SRI U.S. Individual Annuities Executive Summary 1Q YTD 2017.

17 UK Government Office for Science, Future of an ageing population, 2016.

02

Business performance

Doris and Doug's story
Jackson
'With the guarantees offered in our Jackson annuity product, we feel more secure, and ready to focus on people, rather than fight for financial survival.'[1]

1 Guarantees are backed by the claims-paying ability of Jackson National Life Insurance Company.

Strong progress against our performance metrics

The consistency of our performance is driven by the alignment of our business to the most attractive opportunities, the quality of our franchises in those markets and our ability to adapt with speed and agility to changes in economic and regulatory conditions.

Mark FitzPatrick
Chief Financial Officer

Prudential has made a good start to 2017, with increases in all of our key performance metrics, reflecting progression in the Group's underlying earnings drivers, together with the beneficial impact of positive investment market conditions and favourable currency effects. The consistency of our performance is driven by the alignment of our business to the most attractive opportunities, the quality of our franchises in those markets and our ability to adapt with speed and agility to changes in economic and regulatory conditions, both globally and locally. At a Group level, our results benefit from diversification by geography, product and distribution channel, our focus on recurring income streams that are less exposed to market movements and the capital generative nature of our business model.

In Asia, we have achieved double-digit growth in both IFRS operating profit and free surplus generation, reflecting the increasing scale and diversification of our long-term recurring premium business.

We continue to take decisive actions to preserve the quality of the business that we write, building the contribution from health and protection income and improving the overall economic returns of the new business portfolio.

In the US and the UK, our financial progress is underpinned by the accumulation of assets on which we earn fees. In each of these markets, our businesses have seen strong net inflows in the first half, demonstrating their competitive positioning in product, distribution and service capabilities. Asset values were also boosted by positive investment market movements in the period.

With Group operating free surplus generation of £1.8 billion in the first half of 2017, the Group has reported cumulative underlying free surplus generation of £11.1 billion since 2014, achieving our objective of generating over £10 billion of Group cumulative free surplus between 1 January 2014 and 31 December 2017 six months early. We remain on track to achieve the remaining Asia-focused objectives by the end of this year.

Despite the uncertainty caused by the outcome of the general election in the UK, sterling has strengthened slightly against most of the currencies in our major international markets since the beginning of the year. However, average sterling exchange rates in the first half of 2017 were significantly lower than in the same period in 2016, contributing to a positive effect on the translation of results from our non-sterling operations. To aid comparison of underlying progress, we continue to express and comment on the performance trends of our Asia and US operations on a constant currency basis.

The key operational highlights in the first half of 2017 were as follows:

- **New business profit** was 20 per cent[1] higher at £1,689 million (up 34 per cent on an actual exchange rate basis), reflecting higher sales volumes and more favourable economics. Strong growth in new business profit was achieved across our life businesses in Asia, the US and the UK which were up 18 per cent[1], 23 per cent and 29 per cent respectively.
- **IFRS operating profit based on longer-term investment returns** was 5 per cent[1] higher at £2,358 million (up 15 per cent on an actual exchange rate basis), equivalent to an annualised 24 per cent[2] return on opening IFRS shareholders' funds. The Group's performance was driven by our Asia life and asset management operations which saw IFRS operating profit increase 16 per cent[1] to £953 million on growth in the in-force portfolio. In the US, total IFRS operating profit was up 8 per cent, driven by increased levels of fee income on higher separate account balances. In the UK, IFRS operating profit from our insurance and asset management operations increased by 4 per cent[3], due to stronger contributions from management actions in the life business and higher assets under management at M&G.
- **Underlying free surplus generation[4]**, our preferred measure of cash generation from our life and asset management businesses, increased by 6 per cent[1] to £1,845 million after financing new business growth, reflecting a higher contribution from our growing in-force book of business and continued discipline of focusing on high-return new business with fast payback periods. On an actual exchange rate basis the growth in this measure was 14 per cent.

— **Group shareholders' Solvency II capital surplus** was estimated at £12.9 billion[5,6] at 30 June 2017, equivalent to a cover ratio of 202 per cent (31 December 2016: £12.5 billion, 201 per cent). The movement since the start of the year primarily reflects the Group's continuing strong operating capital generation, partially offset by the payment of the 2016 second interim dividend.

Investment markets have been generally supportive through the period, with equity markets trending upwards and more stability in bond and currency markets compared with 2016. The recovery in equity markets towards the end of 2016 has continued into 2017, with the S&P 500 index up 8 per cent and the FTSE 100 index gaining 2 per cent in the first six months. Longer-term yields at 30 June 2017 were almost unchanged from those at the start of the year in the UK, and down slightly in the US. In Asia, where yield movements have been more pronounced, our IFRS operating earnings are largely insensitive to interest rates. Overall, we continue to reduce the sensitivity of our earnings and balance sheet to investment markets, but remain significant long-term holders of financial assets to back the commitments that we have made to our customers. Short-term fluctuations in both these assets and related liabilities are reported outside the operating result, which is based on longer-term investment return assumptions. In the first half of 2017, these short-term fluctuations were overall negative, driven by the effect of higher equity markets on our hedging programme in the US. In the first half of the year, total IFRS post-tax profit was up at £1,505 million (2016: £720 million on a constant exchange rate basis) and total EEV after-tax profit was also higher at £3,297 million (2016: £1,506 million on a constant exchange rate basis).

Reflecting the strong operating results, the Group's IFRS shareholders' equity increased by 5 per cent[7] over the six month period to £15.4 billion (31 December 2016: £14.7 billion), with the Group's EEV basis shareholders' equity up 4 per cent[7] to £40.5 billion (31 December 2016: £39.0 billion).

IFRS profit

	Actual exchange rate			Constant exchange rate	
	Half year 2017 £m	Half year 2016 £m	Change %	Half year 2016 £m	Change %
Operating profit before tax based on longer-term investment returns					
Long-term business:					
Asia[1]	870	667	30	752	16
US	1,079	888	22	1,010	7
UK	480	473	1	473	1
Long-term business operating profit before tax[1]	2,429	2,028	20	2,235	9
UK general insurance commission	17	19	(11)	19	(11)
Asset management business:					
M&G	248	225	10	225	10
Prudential Capital	6	13	(54)	13	(54)
Eastspring Investments	83	61	36	69	20
US	(6)	(12)	50	(13)	54
Other income and expenditure[8]	(419)	(333)	(26)	(342)	(23)
Total operating profit based on longer-term investment returns before tax and interest received from tax settlement[1]	2,358	2,001	18	2,206	7
Interest received from tax settlement	–	43	n/a	43	n/a
Total operating profit based on longer-term investment returns before tax[1]	2,358	2,044	15	2,249	5
Non-operating items:					
Result attaching to the sold Korea life business	61	40	53	47	30
Other non-operating items[8]	(605)	(1,420)	57	(1,619)	63
Profit before tax attributable to shareholders	1,814	664	173	677	168
Tax (charge) credit attributable to shareholders' returns	(309)	23	n/a	43	n/a
Profit for the period attributable to shareholders	1,505	687	119	720	109

IFRS earnings per share

	Actual exchange rate			Constant exchange rate	
	Half year 2017 pence	Half year 2016 pence	Change %	Half year 2016 pence	Change %
Basic earnings per share based on operating profit after tax	70.0	61.3	14	67.6	4
Basic earnings per share based on total profit after tax	58.7	26.9	118	28.2	108

Chief Financial Officer's report on the 2017 first half financial performance – Mark FitzPatrick Continued

IFRS operating profit based on longer-term investment returns

Total IFRS operating profit increased by 5 per cent[1] (15 per cent on an actual exchange rate basis) in the first half of 2017 to £2,358 million.

- **Asia total operating profit** of £953 million was 16 per cent[1] higher (31 per cent on an actual exchange rate basis), with continued strong growth in both life insurance and asset management through Eastspring Investments.
- **US total operating profit** at £1,073 million increased by 8 per cent (22 per cent increase on an actual exchange rate basis), reflecting increased levels of fee income on higher variable annuity account balances.
- **UK total operating profit** of £497 million was in line with the first half of 2016, with lower shareholder annuity profits offset by larger contributions from management actions.
- **M&G operating profit** was 10 per cent higher at £248 million, driven by increased funds under management as a result of asset inflows and positive markets.

Life insurance operations: Taken together, IFRS operating profit from our life insurance operations in Asia, the US and the UK increased 9 per cent[1] to £2,429 million (20 per cent on an actual exchange rate basis).

IFRS operating profit in our life insurance operations in **Asia** was 16 per cent[1] higher at £870 million (up 30 per cent on an actual exchange rate basis), as a result of the continued growth of our in-force book of recurring premium business. Insurance margin was 24 per cent higher and accounted for 69 per cent of operating income[9], reflecting our ongoing preference for health and protection. Following strong recent growth in sales volumes, particularly in health and protection through our agency channel, the contribution to IFRS operating profit from China and Hong Kong combined has become more significant to the overall total, accounting for 23 per cent compared with 17 per cent one year ago. IFRS operating profit from Indonesia was 5 per cent higher (up 20 per cent on an actual exchange rate basis) and on the same basis Singapore was 6 per cent higher (up 20 per cent on an actual exchange rate basis).

In the **US**, life IFRS operating profit was up 7 per cent at £1,079 million (up 22 per cent on an actual exchange rate basis), reflecting increased profits from our variable annuity business. US equity markets rallied towards the end of 2016 and have risen further during the first half of 2017, which together with continued positive net asset flows of £2.0 billion, has led to separate account balances that were on average 16 per cent higher than in the prior year period. As a result, fee income was up 15 per cent at £1,145 million driven by fees earned on separate account assets. Spread-based income decreased by 6 per cent, as anticipated, reflecting the impact of lower yields on our fixed annuity portfolio.

UK life IFRS operating profit increased by 1 per cent to £480 million. Within this total, the contribution from our core in-force book has remained relatively stable at £288 million (2016: £306 million). Profits from new annuity business reduced to £4 million from £27 million in the prior period, reflecting our withdrawal from this market. We have taken a number of asset and liability actions (including longevity reinsurance) in the first half of 2017 to improve portfolio efficiency, which have generated combined profits of £188 million (2016: £140 million).

The increase in our IFRS operating earnings levels reflects the growth in the scale of our operations, driven primarily by positive business flows. We track the progress that we make in growing our life insurance business by reference to the scale of our obligations to our customers, which are referred to in the financial statements as policyholder liabilities. Each period these increase as we write new business and collect regular premiums from existing customers, and decrease as we pay claims and policies mature. The overall scale of these policyholder liabilities is relevant in evaluation of our profit potential in that it reflects, for example, our ability to earn fees on the unit-linked element and indicates the scale of the insurance element, another key source of profitability for the Group.

Shareholder-backed policyholder liabilities and net liability flows[10]

	Actual exchange rate				Actual exchange rate			
	Half year 2017 £m				Half year 2016 £m			
	At 1 January 2017	Net liability flows[11]	Market and other movements	At 30 June 2017	At 1 January 2016	Net liability flows[11]	Market and other movements	At 30 June 2016
Asia[12]	32,851	1,016	1,173	35,040	25,032	977	4,135	30,144
US	177,626	1,958	(1,805)	177,779	138,913	2,855	17,387	159,155
UK	56,158	(1,167)	1,500	56,491	52,824	(1,699)	4,286	55,411
Total Group	266,635	1,807	868	269,310	216,769	2,133	25,808	244,710

Focusing on the business supported by shareholder capital, which generates the majority of the life profit, in the first half of 2017 net flows into our businesses were overall positive at £1.8 billion. This was driven by our US and Asia operations, as we continue to focus on both retaining our existing customers and attracting new business to drive long-term value creation. The outflow from our UK operations primarily reflects the run-off of the in-force annuity portfolio following our withdrawal from selling new annuity business. This decrease in shareholder liabilities has been more than offset by the flows into the with-profits funds of £1.6 billion, as shown in the table below. Positive investment markets in the first half have partly been offset by currency effects as sterling strengthened over the period, increasing liabilities by £0.9 billion. In total, business flows and market movements have increased policyholder liabilities from £266.6 billion to £269.3 billion.

Policyholder liabilities and net liability flows in with-profits business[10,13]

	Actual exchange rate				Actual exchange rate			
	Half year 2017 £m				Half year 2016 £m			
	At 1 January 2017	Net liability flows[11]	Market and other movements	At 30 June 2017	At 1 January 2016	Net liability flows[11]	Market and other movements	At 30 June 2016
Asia	29,933	2,295	1,053	33,281	20,934	1,551	4,355	26,840
UK	113,146	1,574	3,729	118,449	100,069	582	6,417	107,068
Total Group	143,079	3,869	4,782	151,730	121,003	2,133	10,772	133,908

Policyholder liabilities in our with-profits business have increased by 6 per cent to £151.7 billion in the first half of 2017. This reflects the growing popularity of PruFund with consumers seeking protection from the impact of volatile market conditions. During the first half of 2017, net liability flows increased to £3.9 billion across our Asia and UK operations. As returns from these funds are smoothed and shared with customers, the emergence of shareholder profit is more gradual. The business, nevertheless, remains an important source of shareholder value.

Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver[14]

	Actual exchange rate						Constant exchange rate		
	Half year 2017			Half year 2016			Half year 2016		
	Operating profit[1] £m	Average liability £m	Margin bps	Operating profit[1] £m	Average liability £m	Margin bps	Operating profit[1] £m	Average liability £m	Margin bps
Spread income	583	89,314	131	556	80,146	139	613	85,708	143
Fee income	1,279	164,152	156	989	129,054	153	1,118	143,526	156
With-profits	172	132,701	26	162	114,109	28	165	115,945	28
Insurance margin	1,152			898			1,013		
Margin on revenues	1,138			946			1,051		
Expenses:									
Acquisition costs*	(1,241)	3,624	(34)%	(1,027)	2,980	(34)%	(1,155)	3,296	(35)%
Administration expenses	(1,131)	259,451	(87)	(879)	216,075	(81)	(983)	236,974	(83)
DAC adjustments	186			132			149		
Expected return on shareholder assets	103			111			124		
	2,241			1,888			2,095		
Longevity reinsurance and other management actions to improve solvency	188			140			140		
Operating profit based on longer-term investment returns[1]	2,429			2,028			2,235		

* The ratio of acquisition costs is calculated as a percentage of APE sales including with-profits sales. Acquisition costs include only those relating to shareholder-backed business.

We continue to maintain our preference for higher-quality sources of income such as insurance margin and fee income. We favour insurance margin because it is relatively insensitive to the equity and interest rate cycle, and prefer fee income to spread income because it is more capital-efficient. In line with this approach, on a constant exchange rate basis, in the first half of 2017, insurance margin has increased by 14 per cent[1] (up 28 per cent on an actual exchange rate basis) and fee income by 14 per cent[1] (up 29 per cent on an actual exchange rate basis), while spread income declined by 5 per cent[1] (up 5 per cent on an actual exchange rate basis). Administration expenses increased to £1,131 million[1] (2016: £983 million) as the business continues to expand. The expense ratio has grown from 83 basis points to 87 basis points, reflecting country mix and the continued increase in US producers selecting asset-based commissions, which are treated as an administrative expense in this analysis.

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Asset management external funds under management[15,16]

	Actual exchange rate Half year 2017 £m				Actual exchange rate Half year 2016 £m			
	At 1 January 2017	Net flows	Market and other movements	At 30 June 2017	At 1 January 2016	Net flows	Market and other movements	At 30 June 2016
M&G	136,763	7,179	5,176	149,118	126,405	(6,966)	10,217	129,656
Eastspring Investments[17]	38,042	2,273	4,281	44,596	30,281	(412)	2,859	32,728
Total asset management	174,805	9,452	9,457	193,714	156,686	(7,378)	13,076	162,384
Total asset management (including MMF)	182,519	9,951	9,571	202,041	162,692	(6,722)	13,835	169,805

Asset management: Movements in asset management operating profit are also primarily influenced by changes in the scale of these businesses, as measured by funds managed on behalf of external institutional and retail customers and our internal life insurance operations.

In the first half of 2017, average assets under management in our asset management businesses in the UK and Asia benefited from net inflows of assets and favourable markets, driving higher fee revenues. Reflecting this, IFRS operating profit from **M&G** increased by 10 per cent to £248 million and by 20 per cent at **Eastspring Investments** (up 36 per cent on an actual exchange rate basis) to £83 million.

M&G's external assets under management have benefited from a strong recovery in net flows, reflecting improvements in investment performance and supportive markets. External net inflows totalled £7.2 billion (2016: net outflows of £7.0 billion), with strong contributions from European investors in the Optimal Income Fund, Global Floating High Yield Fund and multi-asset fund range, and from institutional clients investing in illiquid credit strategies. External assets under management at 30 June 2017 were £149.1 billion, up 9 per cent since the start of the year. Internal assets managed on behalf of Prudential's life operations also benefited from strong markets, rising 3 per cent and taking total assets under management to £281.5 billion (31 December 2016: £264.9 billion). IFRS operating profit increased 10 per cent to £248 million, consistent with the year-on-year increase in average assets under management and reflecting a cost-income ratio of 53 per cent. M&G's full-year cost-income ratio is typically higher than for the first half, as its cost base is weighted towards the second half of the year (half year 2016: 52 per cent, full year 2016: 59 per cent).

Eastspring also attracted good levels of net inflows[17] in the first half across its equity, fixed income and balanced fund range, totalling £2.3 billion. Including money market funds and the assets managed for internal life operations, Eastspring's total assets under management increased to £130.5 billion (31 December 2016: £117.9 billion), while the cost-income ratio improved to 55 per cent (2016: 56 per cent), driving a 20 per cent increase in IFRS operating profits to £83 million (2016: £69 million).

Net central expenditure

Higher interest costs related to the debt issued in 2016 contributed to an increase in net central expenditure of £77 million to £419 million (2016: £342 million).

IFRS non-operating items[8]

IFRS non-operating items consist of short-term fluctuations of negative £(573) million (2016: £1,580 million), the results attaching to the sold life business in Korea of £61 million (2016: £47 million), and the amortisation of acquisition accounting adjustments of £32 million (2016: £39 million) arising principally from the REALIC business in 2012. Following its disposal in the first half of 2017 the 'Result attaching to the sold Korea life business' represents the recognition upon disposal in the income statement of cumulative foreign exchange gains previously recognised in other comprehensive income, which has no overall impact on shareholders' equity. The 2016 comparative figure represents the profit before tax of the Korea life business in the first half of 2016.

Short-term investment fluctuations represent the most significant component of non-operating items and are discussed further below.

IFRS short-term investment fluctuations

IFRS operating profit is based on longer-term investment return assumptions. The difference between actual investment returns recorded in the income statement and the assumed longer-term returns is reported within short-term fluctuations in investment returns. In the first half of 2017, the total short-term fluctuations in investment returns relating to the life operations were negative £(704) million, comprising positive £41 million for Asia, negative £(754) million in the US and positive £9 million in the UK.

In the US, Jackson provides certain guarantees on its annuity products, the value of which would typically rise when equity markets fall and long-term interest rates decline. Jackson includes the expected cost of hedging when pricing its products and charges fees for these guarantees which are used, as necessary, to purchase downside protection in the form of options and futures to mitigate the effect of equity market falls, and swaps and swaptions to cushion the impact of drops in long-term interest rates. Under IFRS, accounting for the movement in the valuation of these derivatives, which are all fair-valued, is asymmetrical to the movement in guarantee liabilities, which are not fair-valued in all cases. Jackson designs its hedge programme to protect the economics of the business from large movements in investment markets and accepts the variability in accounting results. The negative short-term fluctuations of £(754) million in the first half are mainly attributable to the net value movement in the period of the hedge instruments held to manage market exposures primarily and reflect the positive equity market performance in the US during the period.

The positive short-term fluctuations in investment returns for other operations of £131 million (2016: negative £(192) million) principally reflect unrealised value movements on financial instruments.

IFRS effective tax rates

In the first half of 2017, the effective tax rate on IFRS operating profit based on longer-term investment returns was broadly in line with the equivalent rate last year at 24 per cent (2016: 23 per cent), with the difference being mainly due to the effect of prior year adjustments in the first half of 2017.

The effective tax rate on the total IFRS profit was 17 per cent in the first half of 2017 (2016: negative (3) per cent), driven by the smaller negative short-term investment fluctuations in the US insurance operations, which attract tax relief at a higher rate than the rates at which profits are taxed elsewhere in the Group.

The main driver of the Group's effective tax rate is the mix of the profits between countries with higher tax rates (such as US, Indonesia and Malaysia), and countries with lower tax rates (such as Hong Kong, Singapore and the UK).

The proposed changes to the UK tax rules for utilisation of brought forward tax losses and the deductibility of interest are not expected to impact the Group's effective tax rate. No substantive US tax reform proposals which require material consideration have been issued as yet.

Total tax contribution

The Group continues to make significant tax contributions in the countries in which it operates, with £1,595 million remitted to tax authorities in the first half of 2017. This was higher than the equivalent amount of £1,293 million in the first half of 2016 due to an increase in corporation tax payments (up from £287 million to £535 million). This was principally because of increases in the US and UK, of which a significant proportion is an increase in the amount paid on profits taxable at policyholder rather than shareholder rate.

Publication of tax strategy

In the first half of 2017, the new UK requirement for large UK businesses to publish their tax strategy came into effect. Prudential's tax strategy, together with further details on tax payments made in 2016, have been made available on the Group's website.

New business performance

Life EEV new business profit and APE new business sales (APE sales)

	Actual exchange rate						Constant exchange rate			
	Half year 2017 £m		Half year 2016 £m		Change %		Half year 2016 £m		Change %	
	APE sales	New business profit	APE sales	New business profit	APE sales	New business profit	APE sales	New business profit	APE sales	New business profit
Asia[1]	1,943	1,092	1,605	821	21	33	1,814	928	7	18
US	960	436	782	311	23	40	889	354	8	23
UK	721	161	593	125	22	29	593	125	22	29
Total Group[1]	3,624	1,689	2,980	1,257	22	34	3,296	1,407	10	20

Life insurance new business profit was up 20 per cent[1] (34 per cent on an actual exchange rate basis) at £1,689 million, reflecting a strong underlying increase in Asia, Jackson and the UK driven by higher volumes and better new business economics. **Life insurance new business APE sales** increased by 10 per cent[1] (22 per cent on an actual exchange rate basis) to £3,624 million.

In **Asia**, new business profit was 18 per cent[1] higher at £1,092 million, driven by a combination of growth in sales volumes, improvements in the mix of sales and favourable economic effects. We continue to favour new business premiums that are long-term and recurring in nature and with a high proportion of health and protection, as these are characteristics that mean our income is less sensitive to market cyclicality and variability in economic conditions. Reflecting this and confirming the quality of our new business, regular premiums accounted for 94 per cent of APE sales while sales of health and protection increased by 17 per cent[1]. New business profit from agency-driven health and protection was up 23 per cent and has resulted in a significant improvement in the overall new business economics across the region compared with the prior year.

Headline APE sales increased by 7 per cent[1] to £1,943 million in the first half, which is higher than in the whole of 2012[1] (on both constant and actual exchange rate basis), highlighting the consistency in performance from our broad and diversified new business franchise. As reported previously, the business took the decision in the first half of 2016 to pull back from the third-party broker channel in Hong Kong, which is reflected in a 7 per cent decline in APE sales in this market. Excluding the broker channel in Hong Kong, APE sales in Asia increased by 18 per cent, reflecting the improved performance in our agency and bancassurance channels.

We have continued to see strong demand for our products in China, where APE sales increased by 58 per cent and new business profit rose by 179 per cent, reflecting our efforts to grow health and protection sales through the agency channel. In Hong Kong, we are also increasing our focus on health and protection, with new business profit in this segment 20 per cent higher overall. As expected, we are starting to see some moderation in the level of sales from Mainland China into Hong Kong, which is expected to continue in the second half of the year. In Indonesia, sales have stabilised as we continue to take steps to broaden our product offering, improve our productivity and accelerate the pace of business automation.

In Singapore and Malaysia, APE sales increased by 23 per cent and 10 per cent respectively, as we broaden our product offering and increase the productivity of our distribution channels. Including strong contributions from Vietnam, India and Taiwan, a total of eight countries delivered at least double-digit growth in APE sales and new business profit.

In the **US**, new business profit increased by 23 per cent to £436 million, reflecting volume growth and the positive economic effect of the 82 basis point rise in 10-year Treasury yields since 30 June 2016. Total APE sales were up 8 per cent to £960 million, including wholesale business of £206 million (2016: £144 million).

Although industry volumes in the variable annuity market remain subdued following the declines in 2016, Jackson has continued to outperform the market[18] with an increase in variable annuity sales of 5 per cent in the first half of 2017, reflecting the competitive strengths of Jackson's product offering and distribution capability. Total net inflows into Jackson's separate account asset balances, which drive fee-based earnings on variable annuity business, remain positive at £2.0 billion (2016: £2.3 billion).

Chief Financial Officer's report on the 2017 first half financial performance – Mark FitzPatrick Continued

Our **UK life business** has emerged successfully from the regulatory change in the retail savings and retirement market, driven by the strength of investment performance of its with-profits fund and the transparent structure of PruFund, with its distinctive smoothing process. By extending access to the PruFund investment option to a wider range of product wrappers, we have been able to achieve rapid growth in market segments such as flexible personal pensions and ISAs. Reflecting this continuing success, new business profit increased by 29 per cent to £161 million on APE sales growth of 22 per cent. APE sales of products that offer access to PruFund's smoothed multi-asset fund returns were up 29 per cent, within which flexible personal pensions grew by 76 per cent. As a result, PruFund assets under management of £30 billion at 30 June 2017 were 22 per cent higher than at the start of the year.

Free surplus generation[4]

	Actual exchange rate			Constant exchange rate	
	Half year 2017 £m	**Half year 2016** £m	**Change** %	**Half year 2016** £m	**Change** %
Asia[1]	**836**	653	28	739	13
US	**797**	693	15	788	1
UK	**577**	570	1	570	1
M&G	**201**	181	11	181	11
Prudential Capital	**5**	11	(55)	11	(55)
Underlying free surplus generated from in-force life business and asset management[1]	**2,416**	2,108	15	2,289	6
Investment in new business[1]	**(571)**	(493)	(16)	(551)	(4)
Underlying free surplus generated[1]	**1,845**	1,615	14	1,738	6
Market related movements, timing differences and other movements	**(211)**	(38)			
Net cash remitted by business units	**(1,230)**	(1,118)			
Total movement in free surplus	**404**	459			
Free surplus at 30 June	**6,979**	5,763			

Free surplus generation is the financial metric we use to measure the internal cash generation of our business operations and is based on the capital regimes which apply locally in the various jurisdictions in which our life businesses operate. For life insurance operations it represents amounts maturing from the in-force business during the year, net of amounts reinvested in writing new business. For asset management it equates to post-tax IFRS profit for the period.

We drive free surplus generation by targeting markets and products that have low-strain, high-return and fast payback profiles and by delivering both good service and value to improve customer retention. Our ability to generate both growth and cash is a distinctive feature of Prudential.

In the first half of 2017, underlying free surplus generation from our in-force life insurance and asset management business increased by 6 per cent[1] to £2,416 million (15 per cent on an actual exchange rate basis). This reflects our growing scale and the highly capital-generative nature of our business model. In Asia, growth in the in-force life portfolio, combined with post-tax asset management profits from Eastspring, contributed to free surplus generation of £836 million, up 13 per cent[1]. In the US, free surplus generation increased by 1 per cent with growth in the in-force portfolio being offset by lower spread earnings as investment yields fell. In the UK, free surplus generation increased by 1 per cent to £577 million, including management actions to improve the solvency position of our UK life business of £193 million (2016: £190 million).

Although new business profit increased by 20 per cent[1], the amount of free surplus that was invested in writing new business in the period was only 4 per cent[1] higher at £571 million (2016: £551 million).

Asia remains the primary destination for reinvestment of capital given its higher margin organic growth opportunities. Investment in new business was 10 per cent[1] higher at £283 million, mainly reflecting volume growth and mix effects. We continue to generate internal rates of return in the region in excess of 20 per cent, with an average payback period of three years.

In the **US**, new business investment increased by 3 per cent to £246 million, compared with a 23 per cent increase in new business profit, and Jackson's overall strain remains low. Jackson's new business continues to be written at an overall internal rate of return in excess of 20 per cent and short payback periods averaging three years.

The new business investment in the **UK** was £42 million in the first half of 2017. This was £14 million lower than the £56 million invested in 2016 following our withdrawal from selling non-profit retail annuities which have higher capital requirements than other lines of business.

After financing reinvestment in new business and funding cash remittances from the business units to Group, the closing value of free surplus in our life and asset management operations was £7 billion at 30 June 2017.

We continue to manage cash flows across the Group with a view to achieving a balance between ensuring sufficient remittances are made to service central requirements (including paying the external dividend) and maximising value to shareholders through retention and reinvestment of capital in business opportunities.

Business unit remittance[19]

	Actual exchange rate	
	Half year 2017 £m	**Half year 2016** £m
Net cash remitted by business units:		
Asia	350	258
US	475	339
UK life	215	215
M&G	175	150
Prudential Capital	15	25
Other UK	–	131
Net cash remitted by business units	1,230	1,118
Holding company cash at 30 June	2,657	2,546

Cash remitted to the corporate centre in the first half of 2017 totalled £1,230 million, 10 per cent higher than in 2016. Asia's net remittance was £350 million in the first half of 2017 (2016: £258 million), reflecting both business growth and the effect of weaker sterling. For similar reasons, Jackson's remittance also increased to £475 million in the first half of 2017, up from £339 million paid in the first half of 2016. The remittances from UK life and M&G were broadly in line with the first half of 2016.

Cash remitted to the corporate centre in the first half of 2017 was used to meet central costs of £226 million (2016: £199 million) and pay the 2016 second interim ordinary dividend. Reflecting these and other movements in the period, total holding company cash at 30 June 2017 was £2,657 million compared with £2,626 million at the end of 2016.

Post-tax profit – EEV

	Actual exchange rate			Constant exchange rate	
	Half year 2017 £m	**Half year 2016** £m	**Change** %	**Half year 2016** £m	**Change** %
Post-tax operating profit based on longer-term investment returns					
Long-term business:					
Asia[1]	1,641	1,209	36	1,361	21
US	888	694	28	789	13
UK	465	384	21	384	21
Long-term business post-tax operating profit[1]	2,994	2,287	31	2,534	18
UK general insurance commission	14	15	(7)	15	(7)
Asset management business:					
M&G	201	181	11	181	11
Prudential Capital	5	11	(55)	11	(55)
Eastspring Investments	73	53	38	60	22
US	(4)	(8)	50	(9)	56
Other income and expenditure[20]	(413)	(319)	(29)	(326)	(27)
Post-tax operating profit based on longer-term investment returns before interest received from tax settlement[1]	2,870	2,220	29	2,466	16
Interest received from tax settlement	–	37	n/a	37	n/a
Post-tax operating profit based on longer-term investment returns[1]	2,870	2,257	27	2,503	15
Non-operating items:					
Result attaching to the sold Korea life business	–	(11)	100	(12)	100
Other non-operating items[20]	427	(852)	n/a	(985)	n/a
Post-tax profit for the period attributable to shareholders	3,297	1,394	137	1,506	119

EEV earnings per share

	Actual exchange rate			Constant exchange rate	
	Half year 2017 pence	**Half year 2016** pence	**Change** %	**Half year 2016** pence	**Change** %
Basic earnings per share based on post-tax operating profit[1]	111.9	88.2	27	97.8	14
Basic earnings per share based on post-tax total profit	128.5	54.5	136	58.9	118

Chief Financial Officer's report on the 2017 first half financial performance – Mark FitzPatrick
Continued

EEV operating profit

On an EEV basis, Group post-tax operating profit based on longer-term investment returns was 15 per cent[1] higher (27 per cent on an actual exchange rate basis) at £2,870 million in the first half of 2017, equating to an overall annualised return on opening embedded value of 15 per cent.

EEV operating profit includes new business profit from the Group's life businesses, which increased by 20 per cent[1] (34 per cent on an actual exchange rate basis) to £1,689 million. It also includes life in-force profit of £1,305 million, which was 16 per cent[1] higher reflecting the growth in our in-force business as well as the beneficial impact of higher long-term interest rates compared with 30 June 2016. This is most evident in the profit from the unwind of the in-force business, which was 21 per cent higher[1] at £1,043 million (2016: £862 million). Experience and assumption changes were overall positive at £262 million (2016: £265 million), reflecting our ongoing focus on managing the in-force book for value.

In **Asia**, EEV life operating profit was up 21 per cent[1] to £1,641 million, reflecting growth in new business profit of 18 per cent[1] at £1,092 million. In-force profit was 27 per cent[1] higher at £549 million as the business continues to grow with discipline.

Jackson's EEV life operating profit was up 13 per cent to £888 million, reflecting a 23 per cent increase in new business profit to £436 million and an increase in the contribution from in-force profit of 4 per cent to £452 million. The increase in our US EEV operating profit reflects positive interest rate effects and an increase in sales volume, partially offset by profits from favourable experience that were at a lower level than 2016.

In the **UK**, EEV life operating profit increased by 21 per cent to £465 million (2016: £384 million). The increase reflects higher sales volumes and the positive contribution from actions taken to improve the solvency of the UK business.

Capital position, financing and liquidity

Capital position

Analysis of movement in Group shareholder Solvency II surplus[21]

	2017 £bn	2016 £bn	
	Half year	Half year	Full year
Estimated Solvency II surplus at 1 January	12.5	9.7	9.7
Operating experience	1.7	1.2	2.7
Non-operating experience (including market movements)	–	(2.4)	(1.1)
Other capital movements			
Subordinated debt issuance	–	0.7	1.2
Foreign currency translation impacts	(0.5)	0.9	1.6
Dividends paid	(0.8)	(0.9)	(1.3)
Methodology and calibration changes	–	(0.1)	(0.3)
Estimated Solvency II surplus at end of period	12.9	9.1	12.5

The high quality and recurring nature of our operating capital generation and our disciplined approach to managing balance sheet risk has resulted in the Group shareholders' Solvency II capital surplus being estimated at £12.9 billion[5,6] at 30 June 2017 (equivalent to a solvency ratio of 202 per cent) compared with £12.5 billion (201 per cent) at 31 December 2016.

Prudential's designation as a Global Systemically Important Insurer (G-SII) was reaffirmed by the IAIS in November 2016, based on the updated methodology published in June 2016. Prudential is monitoring the development and potential impact of the policy measures and is continuing to engage with the PRA on the implications of the policy measures and Prudential's designation as a G-SII.

Local statutory capital

All of our subsidiaries continue to hold appropriate capital positions on a local regulatory basis. In the UK, at 30 June 2017, The Prudential Assurance Company Limited and its subsidiaries had an estimated Solvency II shareholder surplus of £5.3 billion[22] (equivalent to a solvency ratio of 168 per cent) and a with-profits surplus[23] of £4.1 billion (equivalent to a solvency ratio of 192 per cent).

Debt portfolio

The Group continues to maintain a high-quality defensively positioned debt portfolio. Shareholders' exposure to credit is concentrated in the UK annuity portfolio and the US general account, mainly attributable to Jackson's fixed annuity portfolio. The credit exposure is well diversified and 98 per cent of our UK portfolio and 97 per cent of our US portfolio are investment grade. During the first half of 2017 there were no default losses in the US or the UK portfolio and reported impairments were minimal (2016: £32 million) in the US portfolio.

Financing and liquidity

Shareholders' net core structural borrowings

	30 June 2017 £m			30 June 2016 £m			31 December 2016 £m		
	IFRS basis	Mark to market value	EEV basis	IFRS basis	Mark to market value	EEV basis	IFRS basis	Mark to market value	EEV basis
Total borrowings of shareholder-financed operations	6,614	673	7,287	5,966	426	6,392	6,798	422	7,220
Less: holding company cash and short-term investments	(2,657)	–	(2,657)	(2,546)	–	(2,546)	(2,626)	–	(2,626)
Net core structural borrowings of shareholder-financed operations	3,957	673	4,630	3,420	426	3,846	4,172	422	4,594
Gearing ratio*	20%			19%			22%		

* Net core structural borrowings as a proportion of IFRS shareholders' funds plus net debt.

Our financing and central liquidity position remained strong throughout the period. Our central cash resources amounted to £2.7 billion at 30 June 2017 (31 December 2016: £2.6 billion).

In addition to its net core structural borrowings of shareholder-financed operations set out above, the Group also has access to funding via the money markets and has in place a global commercial paper programme. As at 30 June 2017, we had issued commercial paper under this programme totalling £10 million and US$1,058 million.

Prudential's holding company currently has access to £2.6 billion of syndicated and bilateral committed revolving credit facilities, provided by 19 major international banks, expiring between 2021 and 2022. Apart from small drawdowns to test the process, these facilities have never been drawn, and there were no amounts outstanding at 30 June 2017. The medium-term note programme, the US shelf programme (platform for issuance of SEC registered public bonds in the US market), the commercial paper programme and the committed revolving credit facilities are all available for general corporate purposes and to support the liquidity needs of Prudential's holding company and are intended to maintain a strong and flexible funding capacity.

Shareholders' funds

	IFRS			EEV		
	2017 £m	2016 £m		2017 £m	2016 £m	
	Half year	Half year	Full year	Half year	Half year	Full year
Profit after tax for the period	1,505	687	1,921	3,297	1,394	4,516
Exchange movements, net of related tax	(224)	806	1,161	(1,045)	2,663	4,211
Cumulative exchange gain of Korea life business recycled to profit and loss account	(61)	–	–	–	–	–
Unrealised gains and losses on Jackson securities classified as available-for-sale[24]	300	1,094	31	–	–	–
Dividends	(786)	(935)	(1,267)	(786)	(935)	(1,267)
Mark to market value movements on Jackson assets backing surplus and required capital	–	–	–	31	138	(11)
Other	49	(2)	(135)	55	(165)	(367)
Net increase in shareholders' funds	783	1,650	1,711	1,552	3,095	7,082
Shareholders' funds at beginning of the period	14,666	12,955	12,955	38,968	31,886	31,886
Shareholders' funds at end of the period	15,449	14,605	14,666	40,520	34,981	38,968
Shareholders' value per share	597p	566p	568p	1,567p	1,356p	1,510p
Return on shareholders' funds[2]	24%	24%	26%	15%	14%	17%

Group IFRS shareholders' funds at 30 June 2017 increased by 5 per cent to £15.4 billion (31 December 2016: £14.7 billion on an actual exchange rate basis), driven by the strength of the operating result, offset by dividend payments of £786 million representing the second interim dividend for 2016. In the first half of the period, UK sterling strengthened relative to the US dollar and various Asian currencies. With approximately 48 per cent of the Group IFRS net assets (70 per cent of the Group's EEV net assets) denominated in non-sterling currencies, this generated a negative exchange rate movement on net assets in the period. In addition, the fall in US long-term interest rates between the start and the end of the reporting period produced unrealised gains on fixed income securities held by Jackson accounted through other comprehensive income.

The Group's EEV basis shareholders' funds also increased by 4 per cent to £40.5 billion (31 December 2016: £39.0 billion on an actual exchange rate basis). On a per share basis the Group's embedded value at 30 June 2017 equated to 1,567 pence, up from 1,510 pence at 31 December 2016.

Chief Financial Officer's report on the 2017 first half financial performance – Mark FitzPatrick
Continued

Corporate transactions

Entrance into Nigeria

In July 2017 the Group acquired a majority stake in Zenith Life of Nigeria and formed exclusive bancassurance partnerships with Zenith Bank in Nigeria and Ghana. The acquisition and bancassurance partnerships will see Prudential enter the market in Nigeria, Africa's largest economy, with a population of over 180 million. This demonstrates Prudential's commitment to Africa following the launch of businesses in Ghana and Kenya in 2014, in Uganda in 2015 and Zambia in 2016.

Disposal of Korea

In May 2017, the Group completed the sale of the Group's life insurance subsidiary in Korea, PCA Life Insurance Co., Ltd to Mirae Asset Life Insurance Co., Ltd. for KRW170 billion (equivalent to £117 million at 17 May 2017 closing rate).

Dividend

As in previous years, the first interim dividend for 2017 has been calculated formulaically as one third of the prior year's full-year ordinary dividend. The Board has approved a first interim dividend for 2017 of 14.50 pence per share, which equates to an increase of 12 per cent over the 2016 first interim dividend.

The Group's dividend policy remains unchanged. The Board will maintain focus on delivering a growing ordinary dividend. In line with this policy, Prudential aims to grow the ordinary dividend by 5 per cent per annum. The potential for additional distributions will continue to be determined after taking into account the Group's financial flexibility across a broad range of financial metrics and an assessment of opportunities to generate attractive returns by investing in specific areas of the business.

Mark FitzPatrick
Chief Financial Officer

Notes

1. Following its sale in May 2017, the operating results exclude the contribution of the Korea life business. All comparative results have been similarly adjusted.
2. Annualised operating profit after tax and non-controlling interests as percentage of opening shareholders' funds.
3. Includes UK life insurance and M&G.
4. Free surplus generation represents 'underlying free surplus' based on operating movements, including the general insurance commission earned during the period and excludes market movements, foreign exchange, capital movements, shareholders' other income and expenditure and centrally arising restructuring and Solvency II implementation costs.
5. Before allowing for first interim dividend.
6. The Group shareholder capital position excludes the contribution to own funds and the solvency capital requirement from ring-fenced with-profits funds and staff pension schemes in surplus. The solvency positions include management's estimate of transitional measures reflecting operating and market conditions at the valuation date. The estimated Group shareholder surplus would increase from £12.9 billion to £13.6 billion at 30 June 2017 if the approved regulatory transitional amount was applied instead.
7. Comparable to 31 December 2016 on an actual exchange rate basis.
8. Refer to note B1.1 in IFRS financial statements for the breakdown of other income and expenditure and other non-operating items.
9. Operating income comprises spread income, fee income, with-profits, insurance margin and expected shareholder return.
10. Includes Group's proportionate share of the liabilities and associated flows of the insurance joint ventures and associate in Asia.
11. Defined as movements in shareholder-backed policyholder liabilities arising from premiums (net of charges), surrenders/withdrawals, maturities and deaths.
12. Following its sale in May 2017, the shareholder-backed policyholder liabilities and related flows for Asia exclude the value for the Korea life business. The half year 2016 comparatives have been adjusted accordingly.
13. Includes unallocated surplus of with-profits business.
14. For basis of preparation see note I(a) of Additional financial information.
15. Includes Group's proportionate share in PPM South Africa and the Asia asset management joint ventures.
16. For our asset management business the level of funds managed on behalf of third parties, which are not therefore recorded on the balance sheet, is a driver of profitability. We therefore analyse the movement in the funds under management each period, focusing between those which are external to the Group and those held by the insurance business and included on the Group balance sheet. This is analysed in note II(b) of the Additional financial information.
17. Net inflows exclude Asia Money Market Fund (MMF) inflows of £499 million (2016: net inflows £656 million on an actual exchange rate basis). External funds under management exclude Asia MMF balances of £8,327 million (2016: £7,421 million on an actual exchange rate basis).
18. ©2017 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. 1Q 2017 Morningstar VA Report with Commentary.
19. Net cash remitted by business units included in the Holding company cash flow is disclosed in note II (a) of Additional financial information.
20. Refer to the EEV basis supplementary information – Post-tax operating profit based on longer-term investment returns and Post-tax summarised consolidated income statement for the breakdown of other income and expenditure and other non-operating items.
21. The methodology and assumptions used in calculating the Solvency II capital results are set out in note II(c) of Additional financial information.
22. The UK shareholder capital position excludes the contribution to own funds and the solvency capital requirement from ring-fenced with-profits funds and staff pension schemes in surplus. The solvency positions include management's estimate of transitional measures reflecting operating and market conditions at the valuation date. The estimated UK shareholder surplus would increase from £5.3 billion to £6.0 billion at 30 June 2017 if the approved regulatory transitional amount was applied instead.
23. The UK with-profits Solvency II surplus includes the PAC with-profits sub-fund, the Scottish Amicable Insurance Fund and the Defined Charge Participating Sub-Fund. The estimated solvency position allows for management's estimate of transitional measures reflecting operating and market conditions at the valuation date.
24. Net of related changes to deferred acquisition costs and tax.

Group Chief Risk Officer's report of the risks facing our business and how these are managed – Penny James

Generating value while managing risk

Our Risk Management Framework is designed to ensure the business remains strong through stress events so we can continue to deliver on our long-term commitments to our customers and shareholders.

Penny James
Group Chief Risk Officer

We continue to operate in a global environment of political uncertainty, although financial markets have remained resilient through the first half of the year. As we position ourselves, we remain mindful of the uncertain environment from a political, economic and social perspective.

As in previous years, we continue to maintain a strong and sustained focus on planning for the possibility of, and ultimately managing, the market volatility and macroeconomic uncertainty arising from the global environment. Our Risk Management Framework and risk appetite have allowed us to successfully control our risk exposure throughout the year. Our governance, processes and controls enable us to deal with the uncertainty ahead in order to continue helping our customers achieve their long-term financial goals.

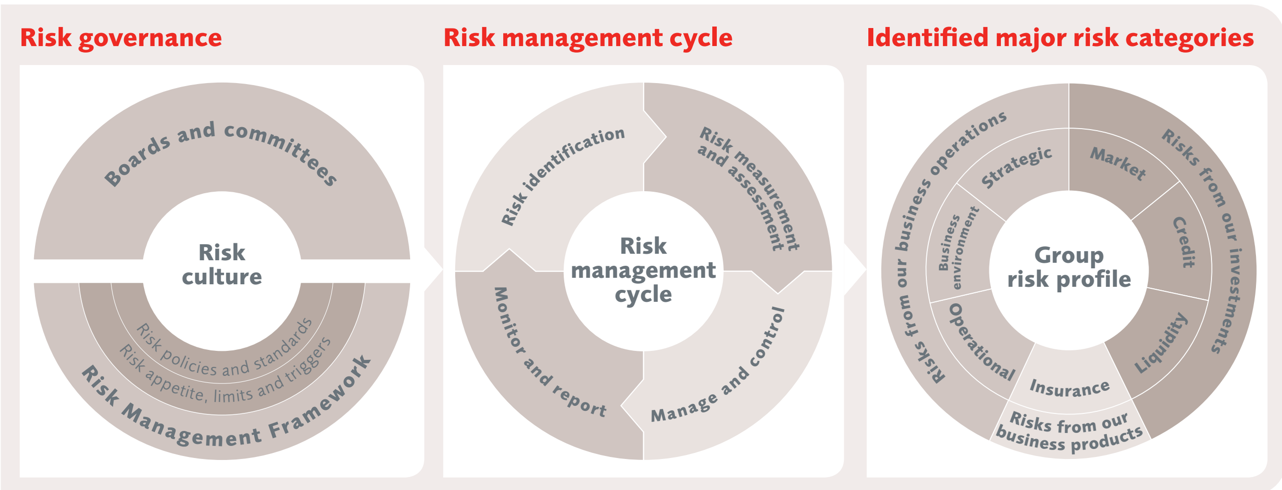
Our results show that, even in times of such unpredictability, we can generate value for our shareholders by selectively taking exposure to risks that are adequately rewarded and that can be appropriately quantified and managed. We retain risks within a clearly defined risk appetite, where we believe doing so contributes to value creation and the Group is able to withstand the impact of an adverse outcome. For our retained risks, we ensure that we have the necessary capabilities, expertise, processes and controls to appropriately manage the exposure.

In my report, I seek to explain the main risks inherent in our business and how we manage those risks, with the aim of ensuring we maintain an appropriate risk profile.

Risk governance, culture and our risk management cycle

Prudential defines 'risk' as the uncertainty that we face in successfully implementing our strategies and objectives. This includes all internal or external events, acts or omissions that have the potential to threaten the success and survival of the Group. Accordingly, material risks will be retained selectively where we think there is value to do so, and where it is consistent with the Group's risk appetite and philosophy towards risk-taking.

The following section provides more detail on our risk governance, culture and risk management process.



Group Chief Risk Officer's report of the risks facing our business and how these are managed – Penny James
Continued

Risk governance

Our risk governance comprises the organisational structures, reporting relationships, delegation of authority, roles and responsibilities, and risk policies that the Group Head Office and our business units establish to make decisions and control their activities on risk-related matters. This encompasses individuals, Group-wide functions and committees involved in managing risk.

Risk committees and governance structure

Our risk governance structure is led by the Group's Risk Committee, supported by independent non-executives on risk committees of major subsidiaries. These committees monitor the development of the Risk Management Framework, the Group's risk appetites, limits and policies, as well as its risk culture. We have a comprehensive risk management cycle in place to identify, measure, manage and monitor our risk exposures.

In addition to our risk committees, there are various executive risk forums to ensure risk issues are shared and considered across the Group. These are led by the Group Executive Risk Committee which is supported by a number of specific sub-committees including security and information security where specialist skills and knowledge are required.

Risk Management Framework

The Group's Risk Management Framework has been developed to monitor and manage the risk of the business at all levels and is owned by the Board. The aggregate Group exposure to the key risk drivers is monitored and managed by the Group Risk function which is responsible for reviewing, assessing and reporting on the Group's risk exposure and solvency position from the Group economic, regulatory and ratings perspectives.

The Framework requires all our businesses and functions to establish processes for identifying, evaluating and managing the key risks faced by the Group – the 'risk management cycle' (see below) is based on the concept of the 'three lines of defence', comprising risk taking and management, risk control and oversight, and independent assurance.

A major part of the risk management cycle is the annual assessment of the Group's risks which are considered key. These key risks range from risks associated with the economic, market, political and regulatory environment; those that we assume when writing our insurance products and by virtue of the investments we hold; and those that are inherent in our business model and its operation. This is used to inform risk reporting to the risk committees and the Board for the year.

Risk appetite, limits and triggers

The extent to which we are willing to take risk in the pursuit of our objective to create shareholder value is defined by a number of risk appetite statements, operationalised through measures such as limits, triggers and indicators. The Group risk appetite is approved by the Board and is set with reference to economic and regulatory capital, liquidity and earnings volatility. The Group risk appetite is aimed at ensuring that we take an appropriate level of aggregate risk and covers all risks to shareholders, including those from participating and third-party business.

We have no appetite for material losses (direct or indirect) suffered as a result of failing to develop, implement and monitor appropriate controls to manage operational risks. Group limits operate within the risk appetite to constrain the material risks, while triggers and indicators provide further constraint and ensure escalation. The Group Chief Risk Officer determines the action to be taken upon all breaches of Group limits.

The Group Risk function is responsible for reviewing the scope and operation of these measures at least annually to determine that they remain relevant. The Board approves all changes made to the Group's Risk Appetite Framework. We define and monitor aggregate risk limits based on financial and non-financial stresses for our earnings volatility, liquidity and capital requirements.

Earnings volatility

The objectives of the aggregate risk limits seek to ensure that:

- The volatility of earnings is consistent with the expectations of stakeholders;
- The Group has adequate earnings (and cash flows) to service debt, expected dividends and to withstand unexpected shocks; and
- Earnings (and cash flows) are managed properly across geographies and are consistent with funding strategies.

The two measures used to monitor the volatility of earnings are IFRS operating profit and EEV operating profit, although IFRS and EEV total profits are also considered.

Liquidity

The objective is to ensure that the Group is able to generate sufficient cash resources to meet financial obligations as they fall due in business as usual and stressed scenarios. Risk appetite with respect to liquidity risk is measured using a Liquidity Coverage Ratio which considers the sources of liquidity versus liquidity requirements under stress scenarios.

Capital requirements

The limits aim to ensure that:

- The Group meets its internal economic capital requirements;
- The Group achieves its desired target rating to meet its business objectives; and
- Supervisory intervention is avoided.

The two measures used at the Group level are Solvency II capital requirements and internal economic capital requirements. In addition, capital requirements are monitored on local statutory bases.

The Group Risk Committee is responsible for reviewing the risks inherent in the Group's business plan and for providing the Board with input on the risk/reward trade-offs implicit therein. This review is supported by the Group Risk function, which uses submissions from our local business units to calculate the Group's aggregated position (allowing for diversification effects between local business units) relative to the aggregate risk limits.

Risk policies

These set out the specific requirements which cover the fundamental principles for risk management within the Risk Management Framework. Policies are designed to give some flexibility so that business users can determine how best to comply with policies based on their local expertise.

There are core risk policies for credit, market, insurance, liquidity and operational risks and a number of internal control policies covering internal model risk, underwriting, dealing controls and tax risk management. They form part of the Group Governance Manual, which was developed to make a key contribution to the sound system of internal control that we maintain in line with the UK Corporate Governance Code and the Hong Kong Code on Corporate Governance Practices. Group Head Office and business units must confirm that they have implemented the necessary controls to evidence compliance with the Group Governance Manual on an annual basis.

Risk standards

The Group-wide Operating Standards provide supporting detail to the higher level risk policies. In many cases they define the minimum requirements for compliance with Solvency II regulations which in some areas are highly prescriptive. The standards are more detailed than policies.

Our risk culture

Culture is a strategic priority of the Board who recognise the importance of good culture in the way that we do business. Risk culture is a subset of broader organisational culture, which shapes the organisation-wide values that we use to prioritise risk management behaviours and practices.

An evaluation of risk culture is part of the Risk Management Framework and in particular seeks to identify evidence that:

- Senior management in business units articulate the need for good risk management as a way to realise long-term value and continuously support this through their actions;
- Employees understand and care about their role in managing risk – they are aware of and openly discuss risk as part of the way they perform their role; and
- Employees invite open discussion on the approach to the management of risk.

Key aspects of risk culture are also communicated through the Code of Conduct and the policies in the Group Governance Manual, including the commitments to the fair treatment of our customers and staff. The approach to the management of risk also is a key part of the evaluation of the remuneration of executives. Risk culture is an evolving topic across the financial services industry and we are working to evaluate and embed a strong risk culture.

The risk management cycle

The risk management cycle comprises processes to identify, measure and assess, manage and control, and monitor and report on our risks.

Risk identification

Group-wide risk identification takes place throughout the year and includes processes such as our Own Risk and Solvency Assessment (ORSA) and the horizon-scanning performed as part of our emerging risk management process.

On an annual basis, a top-down identification of the Group's key risks is performed which considers those risks that have the greatest potential to impact on the Group's operating results and financial condition. A bottom-up process of risk identification is performed by the business units who identify, assess and document risks, with appropriate coordination and challenge from the risk functions.

The Group ORSA report pulls together the analysis performed by a number of risk and capital management processes, which are embedded across the Group, and provides quantitative and qualitative assessments of the Group's risk profile, risk management and solvency needs on a forward-looking basis. The scope of the report covers the full known risk universe of the Group.

The Directors perform a robust assessment of the principal risks facing the Company, through the Group ORSA report and the risk assessments done as part of the business planning review, including how they are managed and mitigated.

Reverse stress testing, which requires us to ascertain the point of business model failure, is another tool that helps us to identify the key risks and scenarios that may materially impact the Group.

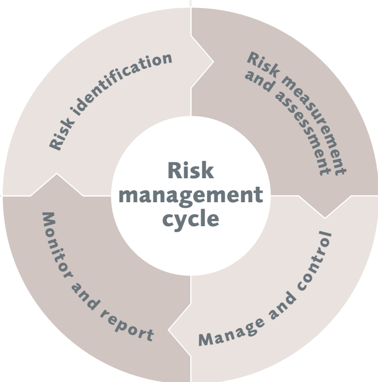
Our emerging risk management process identifies potentially material risks which have a high degree of uncertainty around timing, magnitude and propensity to evolve. The Group holds emerging risk sessions over the year to identify emerging risks which includes input from local subject matter and industry experts. We maintain contacts with thought leaders and peers to benchmark and refine our process.

Risk identification covers Group-wide:
- Top-down risk identification
- Bottom-up risk identification
- Emerging risk identification

Risks are assessed in terms of materiality.

Material risks which are modelled are included in capital models, including E-Cap.

Risks which cannot be quantified are assessed qualitatively.



Risk reports provide monthly updates to the Group Executive Risk Committee, Group Risk Committee and Board on exposure against Board-approved risk appetite statements and limits.

Risk reports also provide updates on the Group top risks.

Risk processes that support the management and controlling of risk exposures include:
- Risk appetite and limits
- Financial incidents procedures
- Large risk approval process
- Global counterparty limit framework
- Own risk and solvency assessment
- Reverse stress testing

Group Chief Risk Officer's report of the risks facing our business and how these are managed – Penny James
Continued

The risk profile is a key output from the risk identification and risk measurement processes, and is used as a basis for setting Group-wide limits, management information, assessment of solvency needs, and determining appropriate stress and scenario testing. The risk identification processes support the creation of our annual set of key risks, which are then given enhanced management and reporting focus.

Risk measurement and assessment
All identified risks are assessed based on an appropriate methodology for that risk. All quantifiable risks which are material and mitigated by holding capital are modelled in the Group's internal model, which is used to determine capital requirements under Solvency II and our own economic capital basis. Governance arrangements are in place to support the internal model, including independent validation and process and controls around model changes and limitations.

Risk management and control
The control procedures and systems established within the Group are designed to reasonably manage the risk of failing to meet business objectives and are detailed in the Group risk policies. This can only provide reasonable and not absolute assurance against material misstatement or loss. They focus on aligning the levels of risk-taking with the achievement of business objectives.

The management and control of risks are set out in the Group risk policies, and form part of the holistic risk management approach under the Group's ORSA. These risk policies define:

- The Group's risk appetite in respect of material risks, and the framework under which the Group's exposure to those risks is limited;
- The processes to enable Group senior management to effect the measurement and management of the Group material risk profile in a consistent and coherent way; and
- The flows of management information required to support the measurement and management of the Group material risk profile and to meet the needs of external stakeholders.

The methods and risk management tools we employ to mitigate each of our major categories of risks are detailed below.

Risk monitoring and reporting
The identification of the Group's key risks informs the management information received by the Group risk committees and the Board. Risk reporting of key exposures against appetite is also included, as well as ongoing developments in other key and emerging risks.

Summary risks
The table below is a summary of the key risks facing the Group, which can be grouped into those which apply to us because of the global environment in which we operate, and those which arise as a result of the business that we operate – including risks arising from our investments, the nature of our products and from our business operations.

'Macro' risks
Some of the risks that we are exposed to are necessarily broad given the external influences which may impact on the Group. These risks include:

Global economic conditions
Changes in global economic conditions can impact us directly; for example, by leading to poor returns on our investments and increasing the cost of promises we have made to our customers. They can also have an indirect impact; for example, economic pressures could lead to decreased savings, reducing the propensity for people to buy our products. Global economic conditions may also impact on regulatory risk for the Group by changing prevailing political attitudes towards regulation.

Geopolitical risk
The geopolitical environment is increasingly uncertain with political upheaval in the UK, the US and the Eurozone. Uncertainty in these regions, combined with conflict in the Middle East and increasing tensions in east Asia underline that geopolitical risks are truly global and their potential impacts are wide-ranging; for example, through increased regulatory risk. The geopolitical and economic environments are increasingly closely linked, and changes in the political arena may have direct or indirect impacts on our Group.

Digital disruption
The emergence of advanced technologies such as artificial intelligence and blockchain is providing an impetus for companies to rethink their existing operating models and how they interact with their customers. Prudential is embracing the opportunities presented by digitisation and is closely monitoring any risks which arise.

Risks from our investments

Global economic conditions – see above – have a large impact on those risks from our investments.

Our fund investment performance is a fundamental part of our business in providing appropriate returns for our customers and shareholders, and so is an important area of focus.

Credit risk

Is the potential for reduced value of our investments due to the uncertainty around investment returns arising from the potential for defaults of our investment counterparties.

Invested credit risk arises from our asset portfolio. We increase sector focus where necessary.

The assets backing the UK and Jackson's annuity business mean credit risk is a significant focus for the Group.

Market risk

Is the potential for reduced value of our investments resulting from the volatility of asset prices as driven by fluctuations in equity prices, interest rates, foreign exchange rates and property prices.

In our Asia business, our main market risks arise from the value of fees from our fee-earning products.

In the US, Jackson's fixed and variable annuity books are exposed to a variety of market risks due to the assets backing these policies.

In the UK, exposure relates to the valuation of the proportion of the with-profits funds' future profits that is transferred to the shareholders (future transfers), which is dependent on equity, property and bond values.

M&G invests in a broad range of asset classes and its income is subject to the price volatility of global financial and currency markets.

Liquidity risk

Is the risk of not having sufficient liquid assets to meet our obligations as they fall due, and incorporates the risk arising from funds composed of illiquid assets. It results from a mismatch between the liquidity profile of assets and liabilities.

Risks from our products

Insurance risks

The nature of the products offered by the Group exposes it to insurance risks, which are a significant part of our overall risk profile.

The insurance risks that we are exposed to by virtue of our products include **longevity risk** (policyholders living longer than expected); **mortality risk** (policyholders with life protection dying); **morbidity risk** (policyholders with health protection becoming ill) and **persistency risk** (customers lapsing their policies).

From our health protection products, increases in the costs of claims (including the level of medical expenses) increasing over and above price inflation (claim inflation) is another risk.

The processes that determine the price of our products and reporting the results of our long-term business operations require us to make a number of assumptions. Where experience deviates from these assumptions our profitability may be impacted.

Across our business units, persistency and morbidity risks are among the largest insurance risks for our Asia business given our strong focus on health protection products in the region.

For the UK and Jackson, the most significant insurance risk is longevity risk driven by their annuity businesses.

Risks from our business operations

Operational risks

As a Group, we are dependent on the appropriate and secure processing of a large number of transactions by our people, IT infrastructure and outsourcing partners, which exposes us to operational risks and reputational risks.

Information security risk is a significant consideration within operational risk, including both the risk of malicious attack on our systems as well as risks relating to data security and integrity and network disruption. The size of Prudential's IT infrastructure and network, our move toward digitisation and the increasing number of high profile cyber security incidents across industries mean that this will continue to be an area of high focus.

Regulatory risk

We also operate under the ever-evolving requirements set out by diverse regulatory and legal regimes (including tax), as well as utilising a significant number of third parties to distribute products and to support business operations; all of which add to the complexity of the operating model if not properly managed.

The number of regulatory changes under way across Asia, in particular those focusing on consumer protection means that regulatory change in the region is also considered a key risk.

Both Jackson and the UK operate in highly regulated markets. Regulatory reforms could materially impact on our businesses, and regulatory focus continues to be high.

Further risk information

In reading the sections below, it is useful to understand that there are some risks that our policyholders assume by virtue of the nature of their products, and some risks that the Company and its shareholders assume. Examples of the latter include those risks arising from assets held directly by and for the Company or the risk that policyholder funds are exhausted. This report is focused mainly on risks to the shareholder, but will include those which arise indirectly through our policyholder exposures.

Risks from our investments

Market risk

The main drivers of market risk in the Group are:

- Investment risk (including equity and property risk);
- Interest rate risk; and
- Given the geographical diversity of our business, foreign exchange risk.

With respect to investment risk, equity and property risk arises from our holdings of equity and property investments, the prices of which can change depending on market conditions.

The valuation of our assets (particularly the bonds that we invest in) and liabilities is also dependent on market interest rates and exposes us to the risk of those moving in a way that is detrimental for us.

Group Chief Risk Officer's report of the risks facing our business and how these are managed – Penny James
Continued

Given our global business, we earn our profits and hold assets in various currencies. The translation of those into our reporting currency exposes us to movements in foreign exchange rates.

Our main investment risk exposure arises from the portion of the profits from the UK with-profits funds which we are entitled to receive; the value of the future fees from our fee-earning products in our Asia business; and from the asset returns backing Jackson's variable annuities business.

Our interest rate risk is driven in the UK by our need to match our assets and liabilities; from the guarantees of some non unit-linked investment products in Asia; and the cost of guarantees in Jackson's fixed, fixed index and variable annuity business. The methods that we use to manage and mitigate our market risks include the following:

- Our market risk policy;
- Risk appetite statements, limits and triggers that we have in place;
- The monitoring and oversight of market risks through the regular reporting of management information;
- Our asset and liability management programmes;
- Use of derivative programmes, including, for example, interest rate swaps, options and hybrid options for interest rate risk;
- Regular deep dive assessments; and
- Use of currency hedging.

Investment risk

In the UK business, our main investment risk arises from the assets held in the with-profits funds. Although this is mainly held by our policyholders, a proportion of the funds' profit (one tenth) is transferred to us and so our investment exposure relates to the future valuation of that proportion (future transfers). This investment risk is driven mainly by equities in the funds, although there is some risk associated with other investments such as property and bonds. Some hedging to protect from a reduction in the value of these future transfers against falls in equity prices is performed outside the funds using derivatives. The with-profits funds' large Solvency II own funds – estimated at £8.6 billion as at 30 June 2017 (31 December 2016: £8.4 billion) – help to protect against market fluctuations and helps the fund to maintain appropriate solvency levels. The with-profits funds' Solvency II own funds are partially protected against falls in equity markets through an active hedging programme within the funds.

In Asia, our shareholder exposure to equity price movements results from unit-linked products, where our fee income is linked to the market value of the funds under management. Further exposure arises from with-profits businesses where bonuses declared are broadly based on historical and current rates of return on equity.

In Jackson, investment risk arises from the assets backing customer policies. In the case of spread-based business, including fixed annuities, these assets are generally bonds, and shareholder exposure comes from the minimum returns needed to meet the guaranteed rates that we offer to policyholders. For our variable annuity business, these assets include both equities and bonds. In this case, the main risk to the shareholder comes from the guaranteed benefits that can be included as part of these products. Our exposure to this kind of situation is reduced by using a derivative hedging programme, as well as through the use of reinsurance to pass on the risk to third-party reinsurers.

Interest rate risk

While long-term interest rates in advanced economies have broadly increased since mid-2016 and indications are for further gradual tightening of monetary policy, they remain close to historical lows. Some products that we offer are sensitive to movements in interest rates. We have already taken a number of actions to reduce the risk to the in-force business, as well as re-pricing and restructuring new business offerings in response to these historically low interest rates. Nevertheless, we still retain some sensitivity to interest rate movements.

Interest rate risk arises in our UK business from the need to match cash payments to meet annuity obligations with the cash we receive from our investments. To minimise the impact on our profit, we aim to match the duration (a measure of interest rate sensitivity) of assets and liabilities as closely as possible and the position is monitored regularly. Under the Solvency II regulatory regime, additional interest rate risk results from the way the balance sheet is constructed, such as the requirement for us to include a risk margin. The UK business continually assesses the need for any derivatives in managing its interest rate sensitivity. The with-profits business is exposed to interest rate risk because of underlying guarantees in some of its products. Such risk is largely borne by the with-profits fund itself but shareholder support may be required in extreme circumstances where the fund has insufficient resources to support the risk.

In Asia, our exposure to interest rate risk arises from the guarantees of some non unit-linked investment products. This exposure exists because it may not be possible to hold assets which will provide cash payments to us which match exactly those payments we in turn need to make to policyholders – this is known as an asset and liability mismatch and although it is small and appropriately managed, it cannot be eliminated.

Jackson is exposed to interest rate risk in its fixed, fixed index and variable annuity books. Movements in interest rates can impact on the cost of guarantees in these products, in particular the cost of guarantees may increase when interest rates fall. We actively monitor the level of sales of variable annuity products with guaranteed living benefits, and together with the risk limits we have in place this helps us to ensure that we are comfortable with the interest rate and market risks we incur as a result. The Jackson hedging programme includes hybrid derivatives to protect us from a combined fall in interest rates and equity markets since Jackson is exposed to the combination of these market movements.

Foreign exchange risk

The geographical diversity of our businesses means that we have some exposure to the risk of exchange rate fluctuations. Our operations in the US and Asia, which represent a large proportion of our operating profit and shareholders' funds, generally write policies and invest in assets in local currencies. Although this limits the effect of exchange rate movements on local operating results, it can lead to fluctuations in our Group financial statements when results are reported in UK sterling.

We retain revenues locally to support the growth of our business and capital is held in the local currency of the business to meet local regulatory and market requirements. We accept the foreign exchange risk this can produce when reporting our Group balance sheet and income statement. In cases where a surplus arises in an overseas operation which is to be used to support Group capital, or where a significant cash payment is due from an overseas subsidiary to the Group, this foreign exchange exposure is hedged where we believe it is economically favourable to do so. Generally, we do not have appetite for significant direct shareholder exposure to foreign exchange risks in currencies outside of the countries in which we operate, but we do have some controlled appetite for this on fee income and on non-sterling investments within the with-profits fund. Where foreign exchange risk arises outside our appetite, currency borrowings, swaps and other derivatives are used to manage our exposure.

Credit risk

We invest in bonds that provide a regular, fixed amount of interest income (fixed income assets) in order to match the payments we need to make to policyholders. We also enter into reinsurance and derivative contracts with third parties to mitigate various types of risk, as well as holding cash deposits at certain banks. As a result, we are exposed to credit risk and counterparty risk across our business.

Credit risk is the potential for reduction in the value of our investments which results from the perceived level of risk of an investment issuer being unable to meet its obligations (defaulting). Counterparty risk is a type of credit risk and relates to the risk of the counterparty to any contract we enter into being unable to meet their obligations, causing us to suffer loss.

We use a number of risk management tools to manage and mitigate this credit risk, including the following:

— Our credit risk policy;

— Risk appetite statements and limits that we have defined on issuers and counterparties;

— Collateral arrangements we have in place for derivative, reverse repo and reinsurance transactions;

— The Group Credit Risk Committee's oversight of credit and counterparty credit risk and sector and/or name-specific reviews. In the first half of 2017 it has conducted sector reviews in the Asia sovereign sector and continues to review the developments around central clearing;

— Regular deep dive assessments; and

— Close monitoring or restrictions on investments that may be of concern.

Debt and loan portfolio

Our UK business is mainly exposed to credit risk on fixed income assets in the shareholder-backed portfolio. At 30 June 2017, this portfolio contained fixed income assets worth £35.4 billion. Credit risk arising from a further £55.9 billion of fixed income assets is largely borne by the with-profits fund, to which the shareholder is not directly exposed although under extreme circumstances shareholder support may be required if the fund is unable to meet payments as they fall due.

The value of our debt portfolio in our Asia business was £39.1 billion at 30 June 2017. The majority (69 per cent) of the portfolio is in unit-linked and with-profits funds and so exposure of the shareholder to this component is minimal. The remaining 31 per cent of the debt portfolio is held to back the shareholder business.

Credit risk also arises in the general account of the Jackson business, where £38.0 billion of fixed income assets are held to support shareholder liabilities including those from our fixed annuities, fixed index annuities and life insurance products.

The shareholder-owned debt and loan portfolio of the Group's asset management business of £2.4 billion as at 30 June 2017 mostly belongs to our Prudential Capital (PruCap) operations.

Further details of the composition and quality of our debt portfolio, and exposure to loans, can be found in the IFRS financial statements.

Group sovereign debt

We also invest in bonds issued by national governments. This sovereign debt represented 17 per cent or £14.9 billion of the shareholder debt portfolio as at 30 June 2017 (31 December 2016: 19 per cent or £17.1 billion). 5 per cent of this was rated AAA and 90 per cent was considered investment grade (31 December 2016: 92 per cent investment grade). At 30 June 2017, the Group's shareholder holding in Eurozone sovereign debt[1] was £844 million. 77 per cent of this relates to German government debt[2] (31 December 2016: 75 per cent).

The particular risks associated with holding sovereign debt are detailed further in our disclosures on risk factors.

The exposures held by the shareholder-backed business and with-profits funds in sovereign debt securities at 30 June 2017 are given in Note C3.2(f) of the Group's IFRS financial statements.

Bank debt exposure and counterparty credit risk

Our exposure to banks is a key part of our core investment business, as well as being important for the hedging and other activities we undertake to manage our various financial risks. Given the importance of our relationship with our banks, exposure to the sector is considered a key risk for the Group with an appropriate level of management information provided to the Group's risk committees and the Board.

The exposures held by the shareholder-backed business and with-profits funds in bank debt securities at 30 June 2017 are given in Note C3.2(f) of the Group's IFRS financial statements.

Our exposure to derivative counterparty and reinsurance counterparty credit risk is managed using an array of risk management tools, including a comprehensive system of limits.

Where appropriate, we reduce our exposure, buy credit protection or use additional collateral arrangements to manage our levels of counterparty credit risk.

At 30 June 2017, shareholder exposures by rating and sector are shown below:

— 96 per cent of the shareholder portfolio is investment grade rated. In particular, 69 per cent of the portfolio is rated A and above; and

— The Group's shareholder portfolio is well diversified: no individual sector makes up more than 10 per cent of the total portfolio (excluding the financial and sovereign sectors).

Liquidity risk

Our liquidity risk arises from the need to have sufficient liquid assets to meet policyholder and third-party payments as they fall due. This incorporates the risk arising from funds composed of illiquid assets and results from a mismatch between the liquidity profile of assets and liabilities. Liquidity risk may arise, for example, where external capital is unavailable at sustainable cost, increased liquid assets are required to be held as collateral under derivative transactions or redemption requests are made against Prudential issued illiquid funds.

We have significant internal sources of liquidity, which are sufficient to meet all of our expected cash requirements for at least 12 months from the date the financial statements are approved, without having to resort to external sources of funding. In total, the Group has £2.6 billion of undrawn committed facilities that we can make use of, £2.4 billion of which expire in 2022 and £0.2 billion in 2021. We have access to further liquidity by way of the debt capital markets, and also have in place an extensive commercial paper programme and have maintained a consistent presence as an issuer in this market for the last decade.

Liquidity uses and sources are assessed at a Group and business unit level under both base case and stressed assumptions. We calculate a Liquidity Coverage Ratio (LCR) under stress scenarios as one measure of our liquidity risk, and this ratio and the liquidity resources available to us are regularly monitored and are assessed to be sufficient.

Our risk management and mitigation of liquidity risk include:

— Our liquidity risk policy;

— The risk appetite statements, limits and triggers that we have in place;

— The monitoring of liquidity risk we perform through regular management information to committees and the Board;

Group Chief Risk Officer's report of the risks facing our business and how these are managed – Penny James
Continued

- Our Liquidity Risk Management Plan, which includes details of the Group Liquidity Risk Framework as well as gap analysis of our liquidity risks and the adequacy of our available liquidity resources under normal and stressed conditions;
- Regular stress testing;
- Our established contingency plans and identified sources of liquidity;
- Our ability to access the money and debt capital markets;
- Regular deep dive assessments; and
- The access we enjoy to external sources of finance through committed credit facilities.

Risks from our products

Insurance risk

Insurance risk makes up a significant proportion of our overall risk exposure. The profitability of our businesses depends on a mix of factors including levels of, and trends in, mortality (policyholders dying), morbidity (policyholders becoming ill) and persistency (customers lapsing their policies), and increases in the costs of claims, including the level of medical expenses increases over and above price inflation (claim inflation).

The key drivers of the Group's insurance risks are persistency and morbidity risk in the Asia business; and longevity risk in the Jackson and Prudential UK & Europe businesses.

We manage and mitigate our insurance risk using the following:

- Our insurance and underwriting risk policies;
- The risk appetite statements, limits and triggers we have in place;
- Longevity, morbidity and persistency assumptions that reflect recent experience and expectation of future trends, and industry data and expert judgement where appropriate;
- Reinsurance to mitigate longevity and morbidity risks;
- Appropriate underwriting when policies are issued and claims are received to mitigate morbidity risk;
- The quality of sales processes and initiatives to increase customer retention to mitigate persistency risk;
- Medical expense inflation risk mitigated through product re-pricing; and
- Regular deep dive assessments.

Longevity risk is an important element of our insurance risks for which we need to hold a large amount of capital under Solvency II regulations. Longevity reinsurance is a key tool for us in managing our risk. The enhanced pensions freedoms introduced in the UK during 2015 greatly reduced the demand for retail annuities and further liberalisation is anticipated. Although we have scaled down our participation in the annuity market by reducing new business acquisition, given our significant annuity portfolio the assumptions we make about future rates of improvement in mortality rates remain key to the measurement of our insurance liabilities and to our assessment of any reinsurance transactions.

We continue to conduct research into longevity risk using both experience from our annuity portfolio and industry data. Although the general consensus in recent years is that people are living longer, there is considerable volatility in year-on-year longevity experience, which is why we need expert judgement in setting our longevity basis.

Our morbidity risk is mitigated by appropriate underwriting when policies are issued and claims are received. Our morbidity assumptions reflect our recent experience and expectation of future trends for each relevant line of business.

In Asia, we write significant volumes of health protection business, and so a key assumption for us is the rate of medical inflation, which is often in excess of general price inflation. There is a risk that the expenses of medical treatment increase more than we expect, so the medical claim cost passed on to us is higher than anticipated. Medical expense inflation risk is best mitigated by retaining the right to re-price our products each year and by having suitable overall claim limits within our policies, either limits per type of claim or in total across a policy.

Our persistency assumptions similarly reflect a combination of recent past experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. Any expected change in future persistency is also reflected in the assumption. Persistency risk is mitigated by appropriate training and sales processes and managed locally post-sale through regular experience monitoring and the identification of common characteristics of business with high lapse rates. Where appropriate, we make allowance for the relationship (either assumed or historically observed) between persistency and investment returns and account for the resulting additional risk. Modelling this dynamic policyholder behaviour is particularly important when assessing the likely take-up rate of options embedded within certain products. The effect of persistency on our financial results can vary but mostly depends on the value of the product features and market conditions.

Risks from our business operations

Operational risk

Operational risk is the risk of loss (or unintended gain or profit) arising from inadequate or failed internal processes, personnel and systems, or from external events. This includes employee error, model error, system failures, fraud or some other event which disrupts business processes.

We manage and mitigate our operational risk using the following:

- Operational risk and outsourcing and third-party supply policies;
- Corporate insurance programmes to limit the impact of operational risks;
- Scenario analysis for operational risk capital requirements, which focus on extreme, yet plausible, events;
- Internal and external review of cyber security capability;
- Regular testing of elements of the disaster recovery plan;
- Group and business unit level compliance oversight and testing in respect of adherence with in-force regulations; and
- Regulatory change teams in place assist the business in proactively adapting and complying with regulatory developments.

An important element of operational risk relates to compliance with changing regulatory requirements. The high rate of global regulatory change, in an already complex regulatory landscape, increases the risk of non-compliance due to a failure to identify, correctly interpret, implement and/or monitor regulations. Legislative developments over recent years, together with enhanced regulatory oversight and increased capability to issue sanctions, have resulted in a complex regulatory environment that may lead to breaches of varying magnitude if the Group's business-as-usual operations are not compliant. As well as prudential regulation, we focus on conduct regulation, including regulations related to anti-money laundering, bribery and corruption, and sales practices. We have a particular focus on these regulations in newer/emerging markets.

The performance of core activities places reliance on the IT infrastructure that supports day-to-day transaction processing. Our IT environment must also be secure and we must address an increasing cyber risk threat as our digital footprint increases – see separate Cyber risk section below. The risk that our IT infrastructure does not meet these requirements is a key area of focus, particularly the risk that legacy IT infrastructure supporting core activities/processes affects business continuity or impacts on business growth.

Addressing these key risks requires change and transformation activities in order for Prudential to meet the expectations of its stakeholders, regulators, customers and shareholders, as well as to maintain market competitiveness in an industry where innovation is steadily accelerating. There are financial and reputational implications if such activities fail (either wholly or in part) to meet their objectives, and even if successful there is a potential to alter Prudential's operational risk profile. Owing to these factors, the execution and implications of internal change activities is an important area of focus.

As well as the above, other key areas of focus within operational risk include:

- The risk of a significant failure of a third-party outsourcing partner impacting critical services;
- The risk of trading or transaction errors having a material cost across the Group;
- The risk that errors within models and user-developed applications used by the Group result in incorrect or inappropriate transactions being instructed;
- Departure of key persons or teams resulting in disruption to current and planned business activities;
- The risk that key people, processes and systems are unable to operate (thus impacting on the ongoing operation of the business) due to a significant unexpected external event; for example, pandemic, terrorist attack, natural disaster or political unrest; and
- The risk of inadequate or inappropriate controls, governance structures or communication channels in place to support the desired culture and ensure that the business is managed in line with the core business values, within the established risk appetite and in alignment with external stakeholder expectations.

Global regulatory and political risk

Our risk management and mitigation of regulatory and political risk includes the following:

- Risk assessment of the Business Plan which includes consideration of current strategies;
- Close monitoring and assessment of our business environment and strategic risks;
- Board strategy sessions that consider risk themes;
- A Systemic Risk Management Plan that details the Group's strategy and Risk Management Framework; and
- A Recovery Plan covering corporate and risk governance for managing risks in a distressed environment, a range of recovery options, and scenarios to assess the effectiveness of these recovery options.

On 29 March 2017 the UK submitted formal notification of its intention to withdraw from the EU. The potential outcome of the negotiations on UK withdrawal and any subsequent negotiations on trade and access to major trading markets, including the single EU market, is currently highly uncertain. Following submission of this notification, the UK has a period of two years to negotiate the terms of its withdrawal from the EU. If no formal withdrawal agreement is reached then it is expected the UK's membership of the EU will automatically terminate two years after the submission of the notification.

The ongoing uncertainty and likelihood of a lengthy negotiation period may increase volatility in the markets where we operate, creating the potential for a general downturn in economic activity and for further or prolonged falls in interest rates in some jurisdictions due to easing of monetary policy and investor sentiment. We have several UK-domiciled operations, including Prudential UK and M&G, and these may be impacted by a UK withdrawal from the EU. However, our diversification by geography, currency, product and distribution should reduce some of the potential impact. Contingency plans were developed ahead of the referendum by business units and operations that may be immediately impacted by a vote to withdraw the UK from the EU, and these plans have been enacted since the referendum result.

The UK's decision to leave the EU has the potential to result in changes to future applicability of the Solvency II regime in the UK. The European Commission has commenced a review of some elements of the application of the Solvency II legislation with a particular focus on the Solvency Capital Requirement calculated using the standard formula.

National and regional efforts to curb systemic risk and promote financial stability are also underway in certain jurisdictions in which Prudential operates, including the Dodd-Frank Wall Street Reform and Consumer Protection Act in the US, and other European Union legislation related to the financial services industry, such as MiFID2.

There are a number of ongoing policy initiatives and regulatory developments that are having, and will continue to have, an impact on the way Prudential is supervised. These include addressing Financial Conduct Authority (FCA) reviews, ongoing engagement with the Prudential Regulation Authority (PRA), and the work of the Financial Stability Board (FSB) and standard-setting institutions such as the International Association of Insurance Supervisors (IAIS). Decisions taken by regulators, including those related to solvency requirements, corporate or governance structures, capital allocation and risk management may have an impact on our business.

The IAIS's Global Systemically Important Insurer (G-SII) regime forms additional compliance considerations for us. Groups designated as G-SIIs are subject to additional regulatory requirements, including enhanced group-wide supervision, effective resolution planning, development of a Systemic Risk Management Plan, a Recovery Plan and a Liquidity Risk Management Plan. Prudential's designation as a G-SII was reaffirmed by the IAIS in November 2016, based on the updated methodology published in June 2016. Prudential is monitoring the development and potential impact of the policy measures and is continuing to engage with the PRA on the implications of the policy measures and Prudential's designation as a G-SII. The IAIS is intending to review the G-SII designation methodology, including considering the activity based approach to systemic risk assessment in 2019.

We continue to engage with the IAIS on developments in capital requirements for groups with G-SII designation. The regime introduces capital requirements in the form of a Higher Loss Absorption (HLA) requirement. While this requirement was initially intended to come into force in 2019, this has now been postponed to 2022. The HLA is also now intended to be based on the Insurance Capital Standard (ICS), which is being developed by the IAIS as the capital requirements under its Common Framework (ComFrame). This framework is focused on the supervision of Internationally Active Insurance Groups and will establish a set of common principles and standards designed to assist regulators in addressing risks that arise from insurance groups with operations in

Group Chief Risk Officer's report of the risks facing our business and how these are managed – Penny James
Continued

multiple jurisdictions. As part of this, work is underway to develop a global Insurance Capital Standard that is intended to apply to Internationally Active Insurance Groups.

A consultation on the ICS was concluded in 2016 and the IAIS intends to publish an interim version of ICS in 2017. Further field testing, consultations and private reporting to group-wide supervisors on the interim version of the ICS are expected over the coming years. It is currently planned to be adopted as part of ComFrame by the IAIS in late 2019.

The IAIS's Insurance Core Principles, which provide a globally-accepted framework for the supervision of the insurance sector and ComFrame evolution, are expected to create continued development in both prudential and conduct regulations over the next two to three years.

In the US, the Department of Labor rule became effective on 9 June 2017 (although some provisions do not come into effect until January 2018), and introduces new fiduciary obligations for distributors of investment products to holders of regulated accounts, which may dramatically reshape the distribution of retirement products. Jackson's strong relationships with distributors, history of product innovation and efficient operations should help mitigate any impacts.

The US National Association of Insurance Commissioners (NAIC) is currently conducting an industry consultation with the aim of reducing the non-economic volatility in the variable annuity statutory balance sheet and risk management. Following an industry quantitative impact study, changes have been proposed to the current framework; however, these are considered to be at an early stage of development. Jackson continues to be engaged in the consultation and testing process. The proposal is expected to be effective from 2019 at the earliest.

With the new US administration having taken office in January 2017, the potential uncertainty as to the timetable and status of these key US reforms has increased given preliminary indications from Washington. Our preparations to manage the impact of these reforms will continue until further clarification is provided.

In May 2017, the International Accounting Standards Board (IASB) published IFRS 17 which will introduce fundamental changes to the statutory reporting of insurance entities that prepare accounts according to IFRS from 2021. We are currently considering the potential impact of the complex requirements of this standard on the Group which can be expected to, among other things, alter the timing of IFRS profit recognition.

In Asia, regulatory regimes are developing at different speeds, driven by a combination of global factors and local considerations. New requirements could be introduced in these and other regulatory regimes that challenge legal or ownership structures, current sales practices, or could retrospectively be applied to sales made prior to their introduction, which could have a negative impact on Prudential's business or reported results.

Cyber risk
Cyber risk is an area of increased scrutiny for global regulators after a number of recent high profile attacks and data losses. The growing maturity and industrialisation of cyber-criminal capability, together with an increasing level of understanding of complex financial transactions by criminal groups, are two reasons why risks to the financial services industry are increasing. Developments in data protection worldwide (such as the EU General Data Protection Regulation that is expected to come into force in 2018) may increase the financial and reputational implications for Prudential on a breach of its IT systems.

Given this, cyber security is seen as a key risk for the Group. Our current threat assessment is that, while we are not individually viewed as a compelling target for a direct cyber attack, there have been recent changes to the threat landscape and the risk from untargeted but sophisticated and automated attacks has increased, as has the risk stemming from geopolitical tensions. These have the potential to significantly impact on business continuity, our customer relationship and our brand reputation.

The Board receives periodic updates on cyber risk management throughout the year. The current Group-wide Cyber Risk Management Strategy and the associated Group-wide Coordinated Cyber Defence Plan were approved by the Board in 2016.

The Cyber Risk Management Strategy includes three core objectives: to develop a comprehensive situational awareness of our business in cyberspace; to pro-actively engage cyber attackers to minimise harm to our business; and to enable the business to grow confidently and safely in cyberspace.

The Cyber Defence Plan consists of a number of work-streams, including developing our ability to deal with incidents; alignment with our digital transformation strategy; and increasing cyber oversight and assurance to the Board.

Protecting our customers remains core to our business, and the successful delivery of the Cyber Defence Plan will reinforce our capabilities to continue doing so in cyberspace as we transition to a digital business.

Group functions work with each of the business units to address cyber risks locally within the national and regional context of each business, following the strategic direction laid out in the Cyber Risk Management Strategy and managed through the execution of the Cyber Defence Plan.

The Group Information Security Committee, which consists of senior executives from each of the businesses and meets on a regular basis, governs the execution of the Cyber Defence Plan and reports on delivery and cyber risks to the Group Executive Risk Committee. Both committees also receive regular operational management information on the performance of controls.

Penny James
Group Chief Risk Officer

Notes
1 Excludes Group's proportionate share in joint ventures and associates and unit-linked assets and holdings of consolidated unit trust and similar funds.
2 Including bonds guaranteed by the federal government.

03

International Financial Reporting Standards (IFRS) basis results

Patrick's story
M&G
'Saving for the future is part of my DNA, which is why investing with a company like M&G is important to me. I know that looking after customers' money is part of their DNA too.'

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International Financial Reporting Standards (IFRS) basis results

Notes

Condensed consolidated income statement

	Note	2017 £m	2016 £m	
		Half year	Half year	Full year
Earned premiums, net of reinsurance		21,158	17,394	36,961
Investment return		20,629	17,062	32,511
Other income		1,222	1,085	2,370
Total revenue, net of reinsurance	B1.4	43,009	35,541	71,842
Benefits and claims and movement in unallocated surplus of with-profits funds, net of reinsurance		(35,442)	(30,939)	(59,366)
Acquisition costs and other expenditure	B3	(5,330)	(3,563)	(8,848)
Finance costs: interest on core structural borrowings of shareholder-financed operations		(216)	(169)	(360)
Disposal of Korea life business:				
Cumulative exchange gain recycled from other comprehensive income	D1	61	–	–
Remeasurement adjustments	D1	5	–	(238)
Total charges, net of reinsurance		(40,922)	(34,671)	(68,812)
Share of profits from joint ventures and associates, net of related tax		120	86	182
Profit before tax (*being tax attributable to shareholders' and policyholders' returns*)*		2,207	956	3,212
Less tax charge attributable to policyholders' returns		(393)	(292)	(937)
Profit before tax attributable to shareholders	B1.1	1,814	664	2,275
Total tax charge attributable to policyholders and shareholders	B5	(702)	(269)	(1,291)
Adjustment to remove tax charge attributable to policyholders' returns		393	292	937
Tax (charge) credit attributable to shareholders' returns	B5	(309)	23	(354)
Profit for the period attributable to equity holders of the Company		1,505	687	1,921

		2017	2016	
Earnings per share (in pence)	Note	Half year	Half year	Full year
Based on profit attributable to the equity holders of the Company:	B6			
Basic		58.7p	26.9p	75.0p
Diluted		58.6p	26.8p	75.0p

		2017	2016	
Dividends per share (in pence)	Note	Half year	Half year	Full year
Dividends relating to reporting period:	B7			
First interim ordinary dividend		14.50p	12.93p	12.93p
Second interim ordinary dividend		–	–	30.57p
Total		14.50p	12.93p	43.50p
Dividends paid in reporting period:	B7			
Current year first interim ordinary dividend		–	–	12.93p
Second interim ordinary dividend for prior year		30.57p	26.47p	26.47p
Special dividend for prior year		–	10.00p	10.00p
Total		30.57p	36.47p	49.40p

* This measure is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders. This is because the corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Company under IAS 12. Consequently, the profit before all taxes measure (which is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of the PAC with-profits fund after adjusting for taxes borne by policyholders) is not representative of pre-tax profits attributable to shareholders.

Condensed consolidated statement of comprehensive income

		2017 £m	2016 £m	
	Note	Half year	Half year	Full year
Profit for the period		1,505	687	1,921
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss				
Exchange movements on foreign operations and net investment hedges:				
Exchange movements arising during the period		(220)	798	1,148
Cumulative exchange gain of Korea life business recycled through profit and loss	D1	(61)	–	–
Related tax		(4)	8	13
		(285)	806	1,161
Net unrealised valuation movements on securities of US insurance operations classified as available-for-sale:				
Net unrealised holding gains arising during the period		565	2,023	241
Add back net losses (deduct net gains) included in the income statement on disposal and impairment		(34)	95	(269)
Total	C3.2(c)	531	2,118	(28)
Related change in amortisation of deferred acquisition costs	C5(b)	(69)	(435)	76
Related tax		(162)	(589)	(17)
		300	1,094	31
Total		15	1,900	1,192
Items that will not be reclassified to profit or loss				
Shareholders' share of actuarial gains and losses on defined benefit pension schemes:				
Gross		53	11	(107)
Related tax		(7)	(2)	14
		46	9	(93)
Other comprehensive income for the period, net of related tax		61	1,909	1,099
Total comprehensive income for the period attributable to the equity holders of the Company		1,566	2,596	3,020

Condensed consolidated statement of changes in equity

	Note	Period ended 30 June 2017 £m							
	Note	Share capital note C9	Share premium note C9	Retained earnings	Translation reserve	Available-for-sale securities reserves	Share-holders' equity	Non-controlling interests	Total equity
Reserves									
Profit for the period		–	–	1,505	–	–	1,505	–	1,505
Other comprehensive income (loss)		–	–	46	(285)	300	61	–	61
Total comprehensive income (loss) for the period		–	–	1,551	(285)	300	1,566	–	1,566
Dividends	B7	–	–	(786)	–	–	(786)	–	(786)
Reserve movements in respect of share-based payments		–	–	22	–	–	22	–	22
Share capital and share premium									
New share capital subscribed	C9	–	10	–	–	–	10	–	10
Treasury shares									
Movement in own shares in respect of share-based payment plans		–	–	(12)	–	–	(12)	–	(12)
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		–	–	(17)	–	–	(17)	–	(17)
Net increase (decrease) in equity		–	10	758	(285)	300	783	–	783
At beginning of period		129	1,927	10,942	1,310	358	14,666	1	14,667
At end of period		129	1,937	11,700	1,025	658	15,449	1	15,450

	Note	Period ended 30 June 2016 £m							
	Note	Share capital note C9	Share premium note C9	Retained earnings	Translation reserve	Available-for-sale securities reserves	Share-holders' equity	Non-controlling interests	Total equity
Reserves									
Profit for the period		–	–	687	–	–	687	–	687
Other comprehensive income		–	–	9	806	1,094	1,909	–	1,909
Total comprehensive income for the period		–	–	696	806	1,094	2,596	–	2,596
Dividends	B7	–	–	(935)	–	–	(935)	–	(935)
Reserve movements in respect of share-based payments		–	–	(54)	–	–	(54)	–	(54)
Share capital and share premium									
New share capital subscribed	C9	–	6	–	–	–	6	–	6
Treasury shares									
Movement in own shares in respect of share-based payment plans		–	–	22	–	–	22	–	22
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		–	–	15	–	–	15	–	15
Net increase (decrease) in equity		–	6	(256)	806	1,094	1,650	–	1,650
At beginning of period		128	1,915	10,436	149	327	12,955	1	12,956
At end of period		128	1,921	10,180	955	1,421	14,605	1	14,606

Condensed consolidated statement of changes in equity
Continued

		Year ended 31 December 2016 £m							
	Note	Share capital note C9	Share premium note C9	Retained earnings	Translation reserve	Available-for-sale securities reserves	Share-holders' equity	Non-controlling interests	Total equity
Reserves									
Profit for the year		–	–	1,921	–	–	1,921	–	1,921
Other comprehensive income (loss)		–	–	(93)	1,161	31	1,099	–	1,099
Total comprehensive income for the year		–	–	1,828	1,161	31	3,020	–	3,020
Dividends	B7	–	–	(1,267)	–	–	(1,267)	–	(1,267)
Reserve movements in respect of share-based payments		–	–	(51)	–	–	(51)	–	(51)
Share capital and share premium									
New share capital subscribed	C9	1	12	–	–	–	13	–	13
Treasury shares									
Movement in own shares in respect of share-based payment plans		–	–	2	–	–	2	–	2
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		–	–	(6)	–	–	(6)	–	(6)
Net increase in equity		1	12	506	1,161	31	1,711	–	1,711
At beginning of year		128	1,915	10,436	149	327	12,955	1	12,956
At end of year		129	1,927	10,942	1,310	358	14,666	1	14,667

Condensed consolidated statement of financial position

	Note	2017 £m	2016 £m	
		30 Jun	30 Jun	31 Dec
Assets				
Goodwill	C5(a)	**1,501**	1,677	1,628
Deferred acquisition costs and other intangible assets	C5(b)	**10,757**	9,594	10,807
Property, plant and equipment		**727**	1,214	743
Reinsurers' share of insurance contract liabilities		**9,709**	9,470	10,051
Deferred tax assets	C7	**4,105**	3,771	4,315
Current tax recoverable		**700**	554	440
Accrued investment income		**2,887**	2,764	3,153
Other debtors		**3,417**	3,505	3,019
Investment properties		**15,218**	13,940	14,646
Investment in joint ventures and associates accounted for using the equity method		**1,293**	1,135	1,273
Loans	C3.3	**16,952**	14,215	15,173
Equity securities and portfolio holdings in unit trusts		**210,437**	176,037	198,552
Debt securities	C3.2	**170,793**	168,367	170,458
Derivative assets		**3,789**	5,495	3,936
Other investments		**5,566**	4,845	5,465
Deposits		**13,353**	14,181	12,185
Assets held for sale		**33**	30	4,589
Cash and cash equivalents		**9,893**	8,530	10,065
Total assets	C1	**481,130**	439,324	470,498
Equity				
Shareholders' equity		**15,449**	14,605	14,666
Non-controlling interests		**1**	1	1
Total equity		**15,450**	14,606	14,667
Liabilities				
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	C4.1(a)	**398,980**	362,510	388,996
Unallocated surplus of with-profits funds	C4.1(a)	**15,090**	13,597	14,317
Core structural borrowings of shareholder-financed operations	C6.1	**6,614**	5,966	6,798
Operational borrowings attributable to shareholder-financed operations	C6.2(a)	**2,096**	2,798	2,317
Borrowings attributable to with-profits operations	C6.2(b)	**3,336**	1,427	1,349
Obligations under funding, securities lending and sale and repurchase agreements		**6,408**	4,963	5,031
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		**8,577**	8,770	8,687
Deferred tax liabilities	C7	**5,683**	5,397	5,370
Current tax liabilities		**743**	566	649
Accruals, deferred income and other liabilities		**14,524**	12,915	13,825
Provisions		**759**	467	947
Derivative liabilities		**2,870**	5,342	3,252
Liabilities held for sale		**–**	–	4,293
Total liabilities	C1	**465,680**	424,718	455,831
Total equity and liabilities		**481,130**	439,324	470,498

Included within equity securities and portfolio holdings in unit trusts, debt securities and other investments are £9,182 million of lent securities as at 30 June 2017 (30 June 2016: £8,162 million; 31 December 2016: £8,545 million).

Condensed consolidated statement of cash flows

	Note	2017 £m	2016 £m	
		Half year	**Half year**	**Full year**
Cash flows from operating activities				
Profit before tax (*being tax attributable to shareholders' and policyholders' returns*)note (i)		**2,207**	956	3,212
Non-cash movements in operating assets and liabilities reflected in profit before tax:				
Other non-investment and non-cash assets		**(550)**	(2,660)	(2,490)
Investments		**(26,539)**	(21,280)	(37,824)
Policyholder liabilities (including unallocated surplus)		**21,597**	19,548	31,135
Other liabilities (including operational borrowings)		**3,390**	3,836	7,861
Other itemsnote (ii)		**(15)**	403	307
Net cash flows from operating activities		**90**	803	2,201
Cash flows from investing activities				
Net cash outflows from purchases and disposals of property, plant and equipment		**(56)**	(32)	(246)
Net cash inflows (outflows) from corporate transactionsnote (iii)		**813**	(302)	(303)
Net cash flows from investing activities		**757**	(334)	(549)
Cash flows from financing activities				
Structural borrowings of the Group:				
Shareholder-financed operations:note (iv)	C6.1			
Issue of subordinated debt, net of costs		**–**	681	1,227
Interest paid		**(207)**	(160)	(335)
With-profits operations:note (v)	C6.2			
Interest paid		**(4)**	(4)	(9)
Equity capital:				
Issues of ordinary share capital		**10**	6	13
Dividends paid		**(786)**	(935)	(1,267)
Net cash flows from financing activities		**(987)**	(412)	(371)
Net (decrease) increase in cash and cash equivalents		**(140)**	57	1,281
Cash and cash equivalents at beginning of period		**10,065**	7,782	7,782
Effect of exchange rate changes on cash and cash equivalents		**(32)**	691	1,002
Cash and cash equivalents at end of period		**9,893**	8,530	10,065

Notes

(i) This measure as explained in the footnote to the income statement is the formal profit before tax measure under IFRS but it is not the result attributable to shareholders.

(ii) The adjusting items to profit before tax included within other items are adjustments in respect of non-cash items together with operational interest receipts and payments, dividend receipts and tax paid.

(iii) Net cash flows for corporate transactions are for distribution rights and the acquisition and disposal of businesses (including private equity and other subsidiaries acquired by with-profits funds for investment purposes).

(iv) Structural borrowings of shareholder-financed operations exclude borrowings to support short-term fixed income securities programmes, non-recourse borrowings of investment subsidiaries of shareholder-financed operations and other borrowings of shareholder-financed operations. Cash flows in respect of these borrowings are included within cash flows from operating activities.

The changes in the carrying value of the structural borrowings of shareholder-financed operations during half year 2017 are analysed as follows:

		Non-cash movements £m		
	Balance at 1 Jan 2017	**Amortisation of issue costs**	**Foreign exchange movement**	**Balance at 30 Jun 2017**
Structural borrowings of shareholder-financed operations	6,798	7	(191)	6,614

(v) Interest paid on structural borrowings of with-profits operations relate solely to the £100 million 8.5 per cent undated subordinated guaranteed bonds, which contribute to the solvency base of the Scottish Amicable Insurance Fund (SAIF), a ring-fenced sub-fund of the PAC with-profits fund. There is no change in respect of the carrying value of the £100 million structural borrowings of the with-profits operations during half year 2017. Cash flows in respect of other borrowings of with-profits funds, which principally relate to consolidated investment funds, are included within cash flows from operating activities.

A Background

A1 Basis of preparation, audit status and exchange rates

These condensed consolidated interim financial statements for the six months ended 30 June 2017 have been prepared in accordance with IAS 34, 'Interim Financial Reporting' as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). The Group's policy for preparing this interim financial information is to use the accounting policies adopted by the Group in its last consolidated financial statements, as updated by any changes in accounting policies it intends to make in its next consolidated financial statements as a result of new or amended IFRS that are applicable or available for early adoption for the next annual financial statements and other policy improvements. EU-endorsed IFRS may differ from IFRSs issued by the IASB if, at any point in time, new or amended IFRS have not been endorsed by the EU. At 30 June 2017, there were no unendorsed standards effective for the period ended 30 June 2017 which impact the condensed consolidated financial statements of the Group, and there were no differences between IFRS endorsed by the EU and IFRS issued by the IASB in terms of their application to the Group.

The IFRS basis results for the 2017 and 2016 half years are unaudited. The 2016 full year IFRS basis results have been derived from the 2016 statutory accounts. The auditors have reported on the 2016 statutory accounts which have been delivered to the Registrar of Companies. The auditors' report was: (i) unqualified; (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The exchange rates applied for balances and transactions in currencies other than the presentational currency of the Group, pounds sterling (GBP), were:

	Closing rate at 30 Jun 2017	Average for the 6 months to 30 Jun 2017	Closing rate at 30 Jun 2016	Average for the 6 months to 30 Jun 2016	Closing rate at 31 Dec 2016	Average for 12 months to 31 Dec 2016
Local currency: £						
Hong Kong	10.14	9.80	10.37	11.13	9.58	10.52
Indonesia	17,311.76	16,793.63	17,662.47	19,222.95	16,647.30	18,026.11
Malaysia	5.58	5.53	5.39	5.87	5.54	5.61
Singapore	1.79	1.77	1.80	1.98	1.79	1.87
China	8.81	8.66	8.88	9.37	8.59	8.99
India	83.96	82.77	90.23	96.30	83.86	91.02
Vietnam	29,526.43	28,612.70	29,815.99	31,996.45	28,136.99	30,292.79
Thailand	44.13	43.72	46.98	50.81	44.25	47.80
US	1.30	1.26	1.34	1.43	1.24	1.35

Certain notes to the financial statements present half year 2016 comparative information at constant exchange rates (CER), in addition to the reporting at actual exchange rates (AER) used throughout the condensed consolidated financial statements. AER are actual historical exchange rates for the specific accounting period, being the average rates over the period for the income statement and the closing rates at the balance sheet date for the balance sheet. CER results are calculated by translating prior period results using the current period foreign exchange rate ie current period average rates for the income statement and current period closing rates for the balance sheet.

The accounting policies applied by the Group in determining the IFRS basis results in this report are the same as those previously applied in the Group's consolidated financial statements for the year ended 31 December 2016, as disclosed in the 2016 statutory accounts.

A2 New accounting pronouncements in 2017

The IASB has issued the following new accounting pronouncements to be effective for 1 January 2017:

— Disclosure Initiative (Amendments to IAS 7, 'Statement of Cash Flows');
— Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12, 'Income Taxes'); and
— Annual Improvements to IFRSs 2014-2016 Cycle.

The pronouncements have yet to be endorsed by the EU and will have no effect on the Group financial statements other than minor changes to disclosures.

B Earnings performance

B1 Analysis of performance by segment

B1.1 Segment results – profit before tax

		2017 £m	2016* £m		%		2016 £m
	Note	Half year	AER Half year note (iv)	CER Half year note (iv)	Half year 2017 vs half year 2016 AER note (iv)	Half year 2017 vs half year 2016 CER note (iv)	AER Full year
Asia operations							
Asia insurance operations	B4(a)	870	667	752	30%	16%	1,503
Eastspring Investments		83	61	69	36%	20%	141
Total Asia operations		953	728	821	31%	16%	1,644
US operations							
Jackson (US insurance operations)		1,079	888	1,010	22%	7%	2,052
Broker-dealer and asset management		(6)	(12)	(13)	50%	54%	(4)
Total US operations		1,073	876	997	22%	8%	2,048
UK operations							
UK insurance operations:	B4(b)						
Long-term business		480	473	473	1%	1%	799
General insurance commission note (i)		17	19	19	(11)%	(11)%	29
Total UK insurance operations		497	492	492	1%	1%	828
M&G		248	225	225	10%	10%	425
Prudential Capital		6	13	13	(54)%	(54)%	27
Total UK operations		751	730	730	3%	3%	1,280
Total segment profit		2,777	2,334	2,548	19%	9%	4,972
Other income and expenditure							
Investment return and other income		–	6	6	(100)%	(100)%	1
Interest payable on core structural borrowings		(216)	(165)	(165)	(31)%	(31)%	(360)
Corporate expenditure note (ii)		(172)	(156)	(165)	(10)%	(4)%	(334)
Total		(388)	(315)	(324)	(23)%	(20)%	(693)
Solvency II implementation costs		–	(11)	(11)	n/a	n/a	(28)
Restructuring costs note (iii)		(31)	(7)	(7)	(343)%	(343)%	(38)
Operating profit based on longer-term investment returns before interest received from tax settlement		2,358	2,001	2,206	18%	7%	4,213
Interest received from tax settlement		–	43	43	n/a	n/a	43
Operating profit based on longer-term investment returns	B1.3	2,358	2,044	2,249	15%	5%	4,256
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(573)	(1,385)	(1,580)	59%	64%	(1,678)
Amortisation of acquisition accounting adjustments note (v)		(32)	(35)	(39)	9%	18%	(76)
Cumulative exchange gain on the sold Korea life business recycled from other comprehensive income	D1	61	–	–	n/a	n/a	–
Profit (loss) attaching to the held for sale Korea life business	D1	–	40	47	n/a	n/a	(227)
Profit before tax attributable to shareholders		1,814	664	677	173%	168%	2,275
Tax (charge) credit attributable to shareholders' returns	B5	(309)	23	43	n/a	n/a	(354)
Profit for the period attributable to shareholders		1,505	687	720	119%	109%	1,921

Basic earnings per share (in pence)	B6	2017 Half year	2016* AER Half year note (iv)	2016* CER Half year note (iv)	% Half year 2017 vs half year 2016 AER note (iv)	% Half year 2017 vs half year 2016 CER note (iv)	2016 AER Full year
Based on operating profit based on longer-term investment returns		70.0p	61.3p	67.6p	14%	4%	131.3p
Based on profit for the period		58.7p	26.9p	28.2p	118%	108%	75.0p

* The Group completed the sale of its life business in Korea in May 2017. Operating profit based on longer-term investment returns for half year 2017 excludes the results attributable to the sold Korea life business, as described in note D1. This approach is consistent with the presentation of operating profit for full year 2016 reported in the Group 2016 Annual Report. Comparative operating profit for half year 2016 has been represented in order to show the results of the retained operations on a comparable basis, resulting in a reclassification in half year 2016 of £15 million of operating profit attributable to the Korea life business to non-operating profit.

Notes

(i) General insurance commission represents the commission receivable net of expenses for Prudential-branded general insurance products in connection with the arrangement to transfer the UK general insurance business to Churchill in 2002.

(ii) Corporate expenditure as shown above is for Group Head Office and Asia Regional Head Office.

(iii) Restructuring costs are incurred in the UK and Asia and represent one-off business development expenses.

(iv) For definitions of AER and CER refer to note A1.

(v) Amortisation of acquisition accounting adjustments principally relate to the REALIC business of Jackson.

B1.2 Short-term fluctuations in investment returns on shareholder-backed business

	2017 £m Half year	2016 £m Half year*	2016 £m Full year
Insurance operations:			
Asia note (i)	41	1	(225)
US note (ii)	(754)	(1,440)	(1,455)
UK note (iii)	9	246	198
Other operations note (iv)	131	(192)	(196)
Total	(573)	(1,385)	(1,678)

* Following its sale in May 2017, the half year 2016 comparative short-term fluctuations in investment returns has been adjusted to exclude the result attributable to the sold Korea life business. This approach is consistent with that applied at full year 2016.

Notes

(i) Asia insurance operations
In Asia, the positive short-term fluctuations of £41 million principally reflect net value movements on shareholders' assets and related liabilities following falls in bond yields across the region during the period (half year 2016: positive £1 million; full year 2016: negative £(225) million).

(ii) US insurance operations
The short-term fluctuations in investment returns for US insurance operations are reported net of related credit for amortisation of deferred acquisition costs, of £231 million as shown in note C5 (half year 2016: credit of £616 million; full year 2016: credit of £565 million) and comprise amounts in respect of the following items:

	2017 £m Half year	2016 £m Half year	2016 £m Full year
Net equity hedge result note (a)	(782)	(1,692)	(1,587)
Other than equity-related derivatives note (b)	12	335	(126)
Debt securities note (c)	5	(105)	201
Equity-type investments: actual less longer-term return	1	13	35
Other items	10	9	22
Total	(754)	(1,440)	(1,455)

B1 Analysis of performance by segment continued

B1.2 Short-term fluctuations in investment returns on shareholder-backed business continued

Notes

(a) Net equity hedge result

The purpose of the inclusion of this item in short-term fluctuations in investment returns is to segregate the amount included in pre-tax profit that relates to the accounting effect of market movements on both the measured value of guarantees in Jackson's variable annuity and fixed index annuity products and on the related derivatives used to manage the exposures inherent in these guarantees. As the Group applies US GAAP for the measured value of the product guarantees this item also includes asymmetric impacts where the measurement bases of the liabilities and associated derivatives used to manage the Jackson annuity business differ as described below.

The result comprises the net effect of:

1 The accounting value movements on the variable and fixed index annuity guarantee liabilities. This includes:
   - The Guaranteed Minimum Death Benefit (GMDB), and the 'for life' portion of Guaranteed Minimum Withdrawal Benefit (GMWB) guarantees which are measured under the US GAAP basis applied for IFRS in a way that is substantially insensitive to the effect of current period equity market and interest rate changes; and
   - The 'not for life' portion of GMWB embedded derivative liabilities which are required to be measured under IAS 39 using a basis under which the projected future growth rate of the account balance is based on current swap rates (rather than expected rates of return) with only a portion of the expected future guarantee fees included. Reserve value movements on these liabilities are sensitive to changes to levels of equity markets, implied volatility and interest rates.

2 Adjustments in respect of fee assessments and claim payments;

3 Fair value movements on free-standing equity derivatives held to manage equity exposures of the variable annuity guarantees and fixed index annuity embedded options; and

4 Related changes to DAC amortisation in accordance with the policy that DAC is amortised in line with emergence of margins.

The net equity hedge result therefore includes significant accounting mismatches and other factors that detract from the presentation of an economic result. These other factors include:

- The variable annuity guarantees and fixed index annuity embedded options being only partially fair valued under 'grandfathered' US GAAP;
- The interest rate exposure being managed through the other than equity-related derivative programme explained in note (b) below; and
- Jackson's management of its economic exposures for a number of other factors that are treated differently in the accounting frameworks such as future fees and assumed volatility levels.

(b) Other than equity-related derivatives

The fluctuations for this item comprise the net effect of:

- Fair value movements on free-standing, other than equity-related derivatives;
- Accounting effects of the Guaranteed Minimum Income Benefit (GMIB) reinsurance; and
- Related amortisation of DAC.

The free-standing, other than equity-related derivatives, are held to manage interest rate exposures and durations within the general account and the variable annuity guarantees and fixed index annuity embedded options described in note (a) above.

The direct GMIB liability is valued using the US GAAP measurement basis applied for IFRS reporting in a way that substantially does not recognise the effects of market movements. Reinsurance arrangements are in place so as to essentially fully insulate Jackson from the GMIB exposure. Notwithstanding that the liability is essentially fully reinsured, as the reinsurance asset is net settled, it is deemed a derivative under IAS 39 which requires fair valuation.

The fluctuations for this item therefore include significant accounting mismatches caused by:

- The fair value movements booked in the income statement on the derivative programme being in respect of the management of interest rate exposures of the variable and fixed index annuity business, as well as the fixed annuity business guarantees and durations within the general account;
- Fair value movements on Jackson's debt securities of the general account which are recorded in other comprehensive income rather than the income statement; and
- The mixed measurement model that applies for the GMIB and its reinsurance.

(c) Short-term fluctuations related to debt securities

	2017 £m	2016 £m	
	Half year	Half year	Full year
Short-term fluctuations relating to debt securities			
(Charges) credits in the period:			
Losses on sales of impaired and deteriorating bonds	(2)	(87)	(94)
Defaults note (v)	–	(6)	(4)
Bond write downs	(1)	(32)	(35)
Recoveries/reversals	7	4	15
Total credits (charges) in the period	4	(121)	(118)
Less: Risk margin allowance deducted from operating profit based on longer-term investment returns	46	42	89
	50	(79)	(29)
Interest-related realised gains:			
Arising in the period	23	20	376
Less: Amortisation of gains and losses arising in current and prior periods to operating profit based on longer-term investment returns	(72)	(59)	(135)
	(49)	(39)	241
Related amortisation of deferred acquisition costs	4	13	(11)
Total short-term fluctuations related to debt securities	5	(105)	201

The debt securities of Jackson are held in the general account of the business. Realised gains and losses are recorded in the income statement with normalised returns included in operating profit and variations from year to year are included in the short-term fluctuations category. The risk margin reserve charge for longer-term credit-related losses included in operating profit based on longer-term investment returns of Jackson for half year 2017 is based on an average annual risk margin reserve of 21 basis points (half year 2016: 21 basis points; full year 2016: 21 basis points) on average book values of US$55.8 billion (half year 2016: US$56.4 billion; full year 2016: US$56.4 billion) as shown below:

	Half year 2017				Half year 2016				Full year 2016			
Moody's rating category (or equivalent under NAIC ratings of mortgage-backed securities)	**Average book value**	**RMR**	**Annual expected loss**		**Average book value**	**RMR**	**Annual expected loss**		**Average book value**	**RMR**	**Annual expected loss**	
	US$m	%	US$m	£m	US$m	%	US$m	£m	US$m	%	US$m	£m
A3 or higher	27,848	0.13	(35)	(28)	29,172	0.12	(36)	(25)	29,051	0.12	(36)	(27)
Baa1, 2 or 3	26,601	0.23	(60)	(47)	25,771	0.24	(63)	(44)	25,964	0.24	(62)	(46)
Ba1, 2 or 3	1,052	1.03	(11)	(9)	1,065	1.08	(11)	(8)	1,051	1.07	(11)	(8)
B1, 2 or 3	311	2.75	(9)	(7)	319	3.02	(10)	(7)	312	2.95	(9)	(7)
Below B3	27	3.80	(1)	(1)	41	3.81	(2)	(1)	40	3.81	(2)	(1)
Total	55,839	0.21	(116)	(92)	56,368	0.21	(122)	(85)	56,418	0.21	(120)	(89)
Related amortisation of deferred acquisition costs (see below)			22	17			22	15			23	17
Risk margin reserve charge to operating profit for longer-term credit-related losses			(94)	(75)			(100)	(70)			(97)	(72)

Consistent with the basis of measurement of insurance assets and liabilities for Jackson's IFRS results, the charges and credits to operating profits based on longer-term investment returns are partially offset by related amortisation of deferred acquisition costs.

In addition to the accounting for realised gains and losses described above for Jackson general account debt securities, included within the statement of other comprehensive income is a pre-tax credit of £462 million for net unrealised gains on debt securities classified as available-for-sale net of related amortisation of deferred acquisition costs (half year 2016: credit of £1,683 million for net unrealised gains; full year 2016: credit of £48 million for net unrealised losses). Temporary market value movements do not reflect defaults or impairments. Additional details of the movement in the value of the Jackson portfolio are included in note C3.2(b).

(iii) UK insurance operations

The positive short-term fluctuations in investment returns for UK insurance operations of £9 million (half year 2016: £246 million; full year 2016: £198 million) include net unrealised movements on fixed income assets supporting the capital of the shareholder-backed annuity business.

(iv) Other

The positive short-term fluctuations in investment returns for other operations of £131 million (half year 2016: negative £(192) million; full year 2016: negative £(196) million) include unrealised value movements on financial instruments and foreign exchange items.

(v) Default losses

The Group incurred no default losses on its shareholder-backed debt securities portfolio for half year 2017 (half year 2016: £(6) million; full year 2016: £(4) million).

B Earnings performance
Continued

B1 Analysis of performance by segment continued

B1.3 Determining operating segments and performance measure of operating segments

Operating segments

The Group's operating segments, determined in accordance with IFRS 8 'Operating Segments', are as follows:

Insurance operations:	Asset management operations:
— Asia	— Eastspring Investments
— US (Jackson)	— US broker-dealer and asset management
— UK	— M&G
	— Prudential Capital

The Group's operating segments are also its reportable segments for the purposes of internal management reporting.

Performance measure

The performance measure of operating segments utilised by the Company is IFRS operating profit attributable to shareholders based on longer-term investment returns. This measurement basis distinguishes operating profit based on longer-term investment returns from other constituents of the total profit as follows:

- Short-term fluctuations in investment returns on shareholder-backed business;
- Amortisation of acquisition accounting adjustments arising on the purchase of business. This comprises principally the charge for the adjustments arising on the purchase of REALIC in 2012; and
- Profit (loss) attaching to the sold Korea life business including the recycling of the cumulative exchange translation gain on the sold Korea life business from other comprehensive income to the income statement in 2017.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items are mainly in relation to the Group Head Office and the Asia Regional Head Office.

The determination of operating profit based on longer-term investment returns for investment and liability movements is as described in note B1.3 of the Group's consolidated financial statements for the year ended 31 December 2016.

For Group debt securities at 30 June 2017, the level of unamortised interest-related realised gains and losses related to previously sold bonds and have yet to be amortised to operating profit was a net gain of £876 million (30 June 2016: net gain of £605 million; 31 December 2016: net gain of £969 million).

For equity-type securities, the longer-term rates of return applied by the non-linked shareholder-financed insurance operations of Asia and the US to determine the amount of investment return included in operating profit are as follows:

- For Asia insurance operations, investments in equity securities held for non-linked shareholder-financed operations amounted to £1,535 million as at 30 June 2017 (30 June 2016: £1,035 million; 31 December 2016: £1,405 million). The rates of return applied for 2017 ranged from 4.7 per cent to 17.2 per cent (30 June 2016: 3.2 per cent to 13.0 per cent; 31 December 2016: 3.2 per cent to 13.9 per cent) with the rates applied varying by business unit; and
- For US insurance operations, at 30 June 2017, the equity-type securities for non-separate account operations amounted to £1,256 million (30 June 2016: £1,115 million; 31 December 2016: £1,323 million). The longer-term rates of return for income and capital applied in 2017 and 2016, which reflect the combination of the average risk-free rates over the period and appropriate risk premiums, are as follows:

	2017	2016	
	Half year	Half year	Full year
Equity-type securities such as common and preferred stock and portfolio holdings in mutual funds	6.2% to 6.5%	5.5% to 5.9%	5.5% to 6.5%
Other equity-type securities such as investments in limited partnerships and private equity funds	8.2% to 8.5%	7.5% to 7.9%	7.5% to 8.5%

B1.4 Additional segmental analysis of revenue

The additional segmental analysis of revenue including those from external customers excluding investment return and net of outward reinsurance premiums are as follows:

	Half year 2017 £m									
	Insurance operations			Asset management						
	Asia	US	UK	M&G	Prudential Capital	US	Eastspring Investments	Total segment	Unallo-cated to a segment (central operations)	Group total
Gross premium earned	7,697	7,997	6,411	–	–	–	–	22,105	–	22,105
Outward reinsurance	(243)	(168)	(536)	–	–	–	–	(947)	–	(947)
Earned premiums, net of reinsurance	7,454	7,829	5,875	–	–	–	–	21,158	–	21,158
Other income from external customers	56	3	89	576	10	371	103	1,208	14	1,222
Total revenue from external customers	7,510	7,832	5,964	576	10	371	103	22,366	14	22,380
Intra-group revenue	–	–	–	88	20	57	128	293	(293)	–
Interest income	485	1,082	1,754	–	30	–	1	3,352	3	3,355
Other investment return	4,315	7,253	5,605	4	47	1	2	17,227	47	17,274
Total revenue, net of reinsurance	12,310	16,167	13,323	668	107	429	234	43,238	(229)	43,009

	Half year 2016 £m									
	Insurance operations			Asset management						
	Asia	US	UK	M&G	Prudential Capital	US	Eastspring Investments	Total segment	Unallo-cated to a segment (central operations)	Group total
Gross premium earned	6,116	6,980	5,242	–	–	–	–	18,338	–	18,338
Outward reinsurance	(401)	(162)	(381)	–	–	–	–	(944)	–	(944)
Earned premiums, net of reinsurance	5,715	6,818	4,861	–	–	–	–	17,394	–	17,394
Other income from external customers	32	1	124	463	2	322	85	1,029	56	1,085
Total revenue from external customers	5,747	6,819	4,985	463	2	322	85	18,423	56	18,479
Intra-group revenue	–	–	–	88	16	47	95	246	(246)	–
Interest income	441	992	2,186	2	36	–	1	3,658	–	3,658
Other investment return	2,241	1,537	9,789	4	(67)	(1)	–	13,503	(99)	13,404
Total revenue, net of reinsurance	8,429	9,348	16,960	557	(13)	368	181	35,830	(289)	35,541

B Earnings performance
Continued

B1 Analysis of performance by segment continued

B1.4 Additional segmental analysis of revenue continued

	Full year 2016 £m									
	Insurance operations			Asset management						
	Asia	US	UK	M&G	Prudential Capital	US	Eastspring Investments	Total segment	Unallocated to a segment (central operations)	Group total
Gross premium earned	14,006	14,685	10,290	–	–	–	–	38,981	–	38,981
Outward reinsurance	(648)	(367)	(1,005)	–	–	–	–	(2,020)	–	(2,020)
Earned premiums, net of reinsurance	13,358	14,318	9,285	–	–	–	–	36,961	–	36,961
Other income from external customers	77	4	374	972	19	680	176	2,302	68	2,370
Total revenue from external customers	13,435	14,322	9,659	972	19	680	176	39,263	68	39,331
Intra-group revenue	–	–	–	200	37	103	211	551	(551)	–
Interest income	873	2,149	4,502	15	47	2	2	7,590	57	7,647
Other investment return	2,040	5,461	17,577	1	(41)	–	2	25,040	(176)	24,864
Total revenue, net of reinsurance	16,348	21,932	31,738	1,188	62	785	391	72,444	(602)	71,842

B2 Profit before tax – asset management operations

The profit included in the income statement in respect of asset management operations for the year is as follows:

	2017 £m					2016 £m	
	M&G	Prudential Capital	US	Eastspring Investments	Half year Total	Half year Total	Full year Total
Revenue (excluding NPH broker-dealer fees)	668	107	124	234	1,133	834	1,876
NPH broker-dealer fees note (i)	–	–	305	–	305	259	550
Gross revenue	668	107	429	234	1,438	1,093	2,426
Charges (excluding NPH broker-dealer fees)	(395)	(50)	(130)	(180)	(755)	(649)	(1,402)
NPH broker-dealer fees note (i)	–	–	(305)	–	(305)	(259)	(550)
Gross charges	(395)	(50)	(435)	(180)	(1,060)	(908)	(1,952)
Share of profits from joint ventures and associate, net of related tax	8	–	–	29	37	26	67
Profit before tax	281	57	(6)	83	415	211	541
Comprising:							
Operating profit based on longer-term investment returns note (ii)	248	6	(6)	83	331	287	589
Short-term fluctuations in investment returns	33	51	–	–	84	(76)	(48)
Profit before tax	281	57	(6)	83	415	211	541

Notes

(i) NPH broker-dealer fees represent commissions received that are then paid on to the writing brokers on sales of investment products. To reflect their commercial nature, the amounts are also wholly reflected as charges within the income statement. After allowing for these charges, there is no effect on profit from this item. The presentation in the table above shows the amounts attributable to this item so that the underlying revenue and charges can be seen.

(ii) M&G operating profit based on longer-term investment returns:

	2017 £m	2016 £m	
	Half year	Half year	Full year
Asset management fee income	491	431	900
Other income	4	9	23
Staff costs	(166)	(133)	(332)
Other costs	(95)	(96)	(212)
Underlying profit before performance-related fees	234	211	379
Share of associate's results	8	5	13
Performance-related fees	6	9	33
M&G operating profit based on longer-term investment returns	248	225	425

The revenue for M&G of £501 million (half year 2016: £449 million; full year 2016: £956 million), comprising the amounts for asset management fee income, other income and performance-related fees shown above, is different to the amount of £668 million shown in the main table of this note. This is because the £501 million (half year 2016: £449 million; full year 2016: £956 million) is after deducting commissions which would have been included as charges in the main table. The difference in the presentation of commission is aligned with how management reviews the business.

B3 Acquisition costs and other expenditure

	2017 £m	2016 £m	
	Half year	Half year	Full year
Acquisition costs incurred for insurance policies	(1,920)	(1,700)	(3,687)
Acquisition costs deferred less amortisation of acquisition costs	399	740	923
Administration costs and other expenditure	(3,055)	(2,451)	(5,522)
Movements in amounts attributable to external unit holders of consolidated investment funds	(754)	(152)	(562)
Total acquisition costs and other expenditure	(5,330)	(3,563)	(8,848)

Included in total acquisition costs and other expenditure is depreciation of property, plant and equipment of £(60) million (half year 2016: £(75) million; full year 2016: £(158) million).

B4 Effect of changes and other accounting features on insurance assets and liabilities

The following features are of relevance to the determination of the half year 2017 results:

(a) Asia insurance operations

In half year 2017, the IFRS operating profit based on longer-term investment returns for Asia insurance operations included a net credit of £54 million (half year 2016: £42 million; full year 2016: £67 million) representing a small number of non-recurring items.

(b) UK insurance operations

Annuity business

Allowance for credit risk

For IFRS reporting, the results for UK shareholder-backed annuity business are particularly sensitive to the allowances made for credit risk. The allowance is reflected in the deduction from the valuation rate of interest used for discounting projected future annuity payments to policyholders that would have otherwise applied. The credit risk allowance comprises an amount for long-term best estimate defaults and additional provisions for credit risk premium, the cost of downgrades and short-term defaults.

Prudential Retirement Income Limited (PRIL) was the principal company writing the UK's shareholder-backed annuity business. In the second half of 2016, the business of PRIL was transferred into PAC following a Part VII transfer under the Financial Services and Markets Act 2000.

The IFRS credit risk allowance made for the ex-PRIL UK shareholder-backed fixed and linked annuity business equated to 43 basis points at 30 June 2017 (30 June 2016 and 31 December 2016: 43 basis points). The allowance represented 28 per cent of the bond spread over swap rates (30 June 2016: 23 per cent; 31 December 2016: 26 per cent).

The reserves for credit risk allowance at 30 June 2017 for the UK shareholder-backed business (both for ex-PRIL and the legacy PAC shareholder annuity business) were £1.7 billion (30 June 2016: £ 1.8 billion; 31 December 2016: £1.7 billion).

B4 Effect of changes and other accounting features on insurance assets and liabilities continued

Longevity reinsurance and other management actions

A number of management actions were taken in the first half of 2017 to improve the solvency position of the UK insurance operations and further mitigate market risk, which have generated combined profits of £188 million. Similar actions were also taken in 2016.

Of this amount £31 million related to profit from additional longevity reinsurance transactions covering £0.6 billion of annuity liabilities on an IFRS basis, with the balance of £157 million reflecting the effect of repositioning the fixed income portfolio and other actions.

The contribution to profit from similar longevity reinsurance and other management actions in 2016 was £140 million for the first half of the year (of which £66 million related to longevity reinsurance transactions covering £1.5 billion of IFRS annuity liabilities) and £332 million for the full year (of which £197 million related to longevity reinsurance transactions covering £5.4 billion of IFRS annuity liabilities).

At 30 June 2017, longevity reinsurance covered £14.8 billion of IFRS annuity liabilities equivalent to 44 per cent of total annuity liabilities (30 June 2016: £10.7 billion, 32 per cent; 31 December 2016: £14.4 billion, 42 per cent).

Review of past annuity sales

Prudential has agreed with the Financial Conduct Authority (FCA) to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers. The review will examine whether customers were given sufficient information about their potential eligibility to purchase an enhanced annuity, either from Prudential or another pension provider. The review commenced in 2017 and is expected to last a period of three years. A provision of £175 million was established at 31 December 2016 to cover the costs of undertaking the review and any potential redress. Other than to cover the small amount of costs incurred in the period, no change has been made to this provision as at 30 June 2017. The ultimate amount that will be expended by the Group on the review remains uncertain. Although the Group's professional indemnity insurance may mitigate the overall financial impact of this review, with potential insurance recoveries of up to £175 million, no such recovery has been factored in the provision, in accordance with the requirements of IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets'.

B5 Tax charge

(a) Total tax charge by nature of expense

The total tax charge in the income statement is as follows:

Tax charge	2017 £m			2016 £m	
	Current tax	Deferred tax	Half year Total	Half year Total	Full year Total
UK tax	(240)	(66)	(306)	(229)	(764)
Overseas tax	(187)	(209)	(396)	(40)	(527)
Total tax charge	(427)	(275)	(702)	(269)	(1,291)

The current tax charge of £427 million includes £37 million (half year 2016: £27 million; full year 2016: £53 million) in respect of the tax charge for the Hong Kong operation. The Hong Kong current tax charge is calculated as 16.5 per cent for all periods on either: (i) 5 per cent of the net insurance premium; or (ii) the estimated assessable profits, depending on the nature of the business written.

The total tax charge comprises tax attributable to policyholders and unallocated surplus of with-profits funds, unit-linked policies and shareholders as shown below:

Tax charge	2017 £m			2016 £m	
	Current tax	Deferred tax	Half year Total	Half year Total	Full year Total
Tax (charge) to policyholders' returns	(247)	(146)	(393)	(292)	(937)
Tax (charge) credit attributable to shareholders	(180)	(129)	(309)	23	(354)
Total tax (charge)	(427)	(275)	(702)	(269)	(1,291)

The principal reason for the increase in the tax charge attributable to policyholders' returns compared to half year 2016 is an increase on investment return in the with-profits fund in the UK insurance operations. The principal reason for the increase in the tax charge attributable to shareholders' returns compared to half year 2016 is a reduction in the deferred tax credit on derivative fair value movements in the US insurance operations.

(b) Reconciliation of effective tax rate

In the reconciliation below, the expected tax rates reflect the corporate income tax rates that are expected to apply to the taxable profit of the relevant business. Where there are profits of more than one jurisdiction the expected tax rates reflect the corporation tax rates weighted by reference to the amount of profit contributing to the aggregate business result. In the column 'Attributable to policyholders', the 100 per cent expected tax rate is the result of accounting for policyholder income after the deduction of expenses and movement on unallocated surpluses and on an after tax basis, the effect of which leaves the profit equal to the tax charge.

	Half year 2017 £m						
	Asia insurance operations	**US insurance operations**	**UK insurance operations**	**Other operations**	**Attributable to shareholders**	**Attributable to policyholders**	**Total**
Operating profit (loss) based on longer-term investment returns	870	1,079	497	(88)	2,358	n/a	n/a
Non-operating profit (loss)	98	(782)	9	131	(544)	n/a	n/a
Profit before tax	968	297	506	43	1,814	393	2,207
Expected tax rate	20%	35%	19%	19%	22%	100%	36%
Tax at the expected rate	194	104	96	8	402	393	795
Effects of recurring tax reconciliation items:							
Income not taxable or taxable at concessionary rates	(18)	(10)	–	(3)	(31)		(31)
Deductions not allowable for tax purposes	8	–	5	5	18		18
Items related to taxation of life insurance businesses	(43)	(85)	(2)	–	(130)		(130)
Deferred tax adjustments	4	–	(1)	–	3		3
Effect of results of joint ventures and associates	(11)	–	–	(9)	(20)		(20)
Irrecoverable withholding taxes	–	–	–	29	29		29
Other	–	4	2	4	10		10
Total	(60)	(91)	4	26	(121)	–	(121)
Effects of non-recurring tax reconciliation items:							
Adjustments to tax charge in relation to prior years	–	10	(5)	(1)	4		4
Movements in provisions for open tax matters	7	25	–	–	32		32
Cumulative exchange gains on the sold Korea life business recycled from other comprehensive income	(8)	–	–	–	(8)		(8)
Total	(1)	35	(5)	(1)	28	–	28
Total actual tax charge	133	48	95	33	309	393	702
Analysed into:							
Tax on operating profit based on longer-term investment returns	141	322	92	8	563	n/a	n/a
Tax on non-operating profit	(8)	(274)	3	25	(254)	n/a	n/a
Actual tax rate:							
Operating profit based on longer-term investment returns							
Including non-recurring tax reconciling items	16%	30%	19%	(9)%	24%	n/a	n/a
Excluding non-recurring tax reconciling items	15%	27%	20%	(10)%	22%	n/a	n/a
Total profit	14%	16%	19%	77%	17%	100%	32%

The more significant reconciling items are explained below:

Asia insurance operations

The £18 million reconciling item 'income not taxable or taxable at concessionary rates' primarily reflects income not subject to the full rate of corporate tax in Malaysia, Singapore and Taiwan.

The £43 million reconciling item 'items related to taxation of life insurance businesses' reflects where the basis of tax is not the accounting profits, primarily in:

— Hong Kong where the taxable profit is based on the net insurance premiums; and
— Indonesia and Philippines where investment income is subject to withholding tax at source and no further corporation tax.

B5 Tax charge continued

(b) Reconciliation of effective tax rate continued

The £11 million reconciling item 'effect of results of the joint ventures and associates' arises from the accounting requirement for inclusion in the profit before tax of Prudential's share of the profits after tax from the joint ventures and associates, with no equivalent item included in Prudential's tax charge.

The £8 million reconciling item 'cumulative exchange gain on the sold Korea life business recycled from other comprehensive income' reflects the non-taxable exchange gain arising on the Korea life business previously taken through other comprehensive income on a period-by-period basis recycled through the income statement following the sale of the business.

US insurance operations

The £85 million reconciling item 'items related to taxation of life insurance businesses' reflects the impact of the dividend received deduction on the taxation of profits from the variable annuity business.

UK insurance operations

There are no significant reconciling items or significant movements from half year 2016.

Other operations

The £29 million reconciling item 'irrecoverable withholding taxes' relates to withholding tax suffered on distributions from Group companies which cannot be recovered against other taxes paid. Other operations comprise the Group's asset management businesses and central operations.

	Half year 2016* £m						
	Asia insurance operations	**US insurance operations**	**UK insurance operations**	**Other operations**	**Attributable to shareholders**	**Attributable to policyholders**	**Total**
Operating profit (loss) based on longer-term investment returns	667	888	492	(3)	2,044	n/a	n/a
Non-operating profit (loss)	37	(1,471)	246	(192)	(1,380)	n/a	n/a
Profit (loss) before tax	704	(583)	738	(195)	664	292	956
Expected tax rate	21%	35%	20%	20%	8%	100%	36%
Tax at the expected rate	148	(204)	148	(39)	53	292	345
Effects of recurring tax reconciliation items:							
Income not taxable or taxable at concessionary rates	(14)	(5)	(16)	(3)	(38)		(38)
Deductions not allowable for tax purposes	8	2	6	2	18		18
Items related to taxation of life insurance businesses	(10)	(60)	(1)	–	(71)		(71)
Deferred tax adjustments	(1)	–	3	(3)	(1)		(1)
Effect of results of joint ventures and associates	(10)	–	–	(7)	(17)		(17)
Irrecoverable withholding taxes	–	–	–	20	20		20
Other	3	–	(2)	16	17		17
Total	(24)	(63)	(10)	25	(72)	–	(72)
Effects of non-recurring tax reconciliation items:							
Adjustments to tax charge in relation to prior years	1	(3)	–	(2)	(4)		(4)
Total	1	(3)	–	(2)	(4)	–	(4)
Total actual tax charge (credit)	125	(270)	138	(16)	(23)	292	269
Analysed into:							
Tax on operating profit based on longer-term investment returns	116	245	101	13	475	n/a	n/a
Tax on non-operating profit	9	(515)	37	(29)	(498)	n/a	n/a
Actual tax rate:							
Operating profit based on longer-term investment returns							
Including non-recurring tax reconciling items	17%	28%	21%	(433)%	23%	n/a	n/a
Excluding non-recurring tax reconciling items	17%	28%	21%	(500)%	23%	n/a	n/a
Total profit	18%	46%	19%	8%	(3)%	100%	28%

* Following its sale in May 2017, the half year 2016 comparative result has been adjusted to exclude the result attributable to the sold Korea life business. This approach is consistent with that applied at full year 2016.

	Full year 2016 £m						
	Asia insurance operations	**US insurance operations**	**UK insurance operations**	**Other operations**	**Attributable to shareholders**	**Attributable to policyholders**	**Total**
Operating profit (loss) based on longer-term investment returns	1,503	2,052	828	(127)	4,256	n/a	n/a
Non-operating (loss) profit	(460)	(1,523)	198	(196)	(1,981)	n/a	n/a
Profit (loss) before tax	1,043	529	1,026	(323)	2,275	937	3,212
Expected tax rate	22%	35%	20%	19%	25%	100%	47%
Tax at the expected rate	229	185	205	(61)	558	937	1,495
Effects of recurring tax reconciliation items:							
Income not taxable or taxable at concessionary rates	(28)	(18)	(12)	(9)	(67)		(67)
Deductions not allowable for tax purposes	19	8	7	26	60		60
Items related to taxation of life insurance businesses	(20)	(159)	(1)	–	(180)		(180)
Deferred tax adjustments	(11)	–	2	(14)	(23)		(23)
Effect of results of joint ventures and associates	(29)	–	–	(17)	(46)		(46)
Irrecoverable withholding taxes	–	–	–	36	36		36
Other	–	–	1	(6)	(5)		(5)
Total	(69)	(169)	(3)	16	(225)	–	(225)
Effects of non-recurring tax reconciliation items:							
Adjustments to tax charge in relation to prior years	1	(81)	(7)	5	(82)		(82)
Movements in provisions for open tax matters	20	–	–	31	51		51
Impact of changes in local statutory tax rates	–	–	(5)	(1)	(6)		(6)
Write down of Korea life business	58	–	–	–	58		58
Total	79	(81)	(12)	35	21	–	21
Total actual tax charge (credit)	239	(65)	190	(10)	354	937	1,291
Analysed into:							
Tax on operating profit based on longer-term investment returns	254	468	160	12	894	n/a	n/a
Tax on non-operating profit	(15)	(533)	30	(22)	(540)	n/a	n/a
Actual tax rate:							
Operating profit based on longer-term investment returns							
Including non-recurring tax reconciling items	17%	23%	19%	(9)%	21%	n/a	n/a
Excluding non-recurring tax reconciling items	16%	27%	21%	18%	22%	n/a	n/a
Total profit	23%	(12)%	19%	3%	16%	100%	40%

The full year 2016 expected and actual tax rates as shown includes the impact of the re-measurement loss on the held for sale Korea life business. The full year 2016 tax rates for Asia insurance operations and attributable to shareholders, excluding the impact of the held for sale Korea life business, are as follows:

	Asia insurance	**Attributable to shareholders**
Expected tax rate on total profit	22%	24%
Actual tax rate		
Operating profit based on longer-term investment returns	17%	21%
Total profit	19%	14%

B6 Earnings per share

	Note	Half year 2017 Before tax note B1.1 £m	Tax note B5 £m	Net of tax £m	Basic earnings per share pence	Diluted earnings per share pence
Based on operating profit based on longer-term investment returns		2,358	(563)	1,795	70.0p	69.9p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(573)	248	(325)	(12.7)p	(12.7)p
Amortisation of acquisition accounting adjustments		(32)	6	(26)	(1.0)p	(1.0)p
Cumulative exchange gain on the sold Korea life business recycled from other comprehensive income		61	–	61	2.4p	2.4p
Based on profit for the period		1,814	(309)	1,505	58.7p	58.6p

	Note	Half year 2016* Before tax note B1.1 £m	Tax note B5 £m	Net of tax £m	Basic earnings per share pence	Diluted earnings per share pence
Based on operating profit based on longer-term investment returns		2,044	(475)	1,569	61.3p	61.2p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(1,385)	496	(889)	(34.7)p	(34.7)p
Amortisation of acquisition accounting adjustments		(35)	11	(24)	(0.9)p	(0.9)p
Profit attaching to held for sale Korea life business	D1	40	(9)	31	1.2p	1.2p
Based on profit for the period		664	23	687	26.9p	26.8p

* Following its sale in May 2017, the half year 2016 comparative operating result has been adjusted to exclude the result attributable to the sold Korea life business. This approach is consistent with that applied at full year 2016.

	Note	Full year 2016 Before tax note B1.1 £m	Tax note B5 £m	Net of tax £m	Basic earnings per share pence	Diluted earnings per share pence
Based on operating profit based on longer-term investment returns		4,256	(894)	3,362	131.3p	131.2p
Short-term fluctuations in investment returns on shareholder-backed business	B1.2	(1,678)	519	(1,159)	(45.3)p	(45.2)p
Amortisation of acquisition accounting adjustments		(76)	25	(51)	(2.0)p	(2.0)p
Loss attaching to held for sale Korea life business	D1	(227)	(4)	(231)	(9.0)p	(9.0)p
Based on profit for the year		2,275	(354)	1,921	75.0p	75.0p

Earnings per share are calculated based on earnings attributable to ordinary shareholders, after related tax and non-controlling interests.

The weighted average number of shares for calculating earnings per share, which excludes those held in employee share trusts and consolidated unit trusts and OEICs, is set out as below:

	Half year 2017 (millions)	Half year 2016 (millions)	Full year 2016 (millions)
Weighted average number of shares for calculation of:			
Basic earnings per share	2,565	2,558	2,560
Diluted earnings per share	2,567	2,559	2,562

B7 Dividends

	Half year 2017		Half year 2016		Full year 2016	
	Pence per share	£m	Pence per share	£m	Pence per share	£m
Dividends relating to reporting period:						
First interim ordinary dividend	**14.50p**	**375**	12.93p	333	12.93p	333
Second interim ordinary dividend	**–**	**–**	–	–	30.57p	789
Total	**14.50p**	**375**	12.93p	333	43.50p	1,122
Dividends paid in reporting period:						
Current year first interim ordinary dividend	**–**	**–**	–	–	12.93p	332
Second interim ordinary dividend for prior year	**30.57p**	**786**	26.47p	679	26.47p	679
Special dividend for prior year	**–**	**–**	10.00p	256	10.00p	256
Total	**30.57p**	**786**	36.47p	935	49.40p	1,267

Dividend per share

The second interim dividend of 30.57 pence per ordinary share for the year ended 31 December 2016 was paid to eligible shareholders on 19 May 2017.

The 2017 first interim dividend of 14.50 pence per ordinary share will be paid on 28 September 2017 in sterling to shareholders on the principal (UK) register and the Irish branch register at 6.00pm BST on 25 August 2017 (Record Date), and in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30pm Hong Kong time on the Record Date (HK Shareholders). The dividend payable to the HK Shareholders will be translated using the exchange rate quoted by the WM Company at the close of business on 9 August 2017. Holders of US American Depositary Receipts (US Shareholders) will be paid their dividends in US dollars on or about 5 October 2017. The exchange rate at which the dividend payable to the US Shareholders will be translated into US dollars will be determined by the depositary agent. The first interim dividend will be paid on or about 5 October 2017 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte.) Limited (CDP) at 5.00pm Singapore time on the Record Date (SG Shareholders). The exchange rate at which the dividend payable to the SG Shareholders will be translated from Hong Kong dollars into Singapore dollars, will be determined by CDP.

Shareholders on the principal (UK) register and Irish branch register will be able to participate in a Dividend Reinvestment Plan.

C Balance sheet notes

C1 Analysis of Group statement of financial position by segment

To explain the assets, liabilities and capital of the Group's businesses more comprehensively, it is appropriate to provide analyses of the Group's statement of financial position by operating segment and type of business.

	30 Jun 2017 £m										30 Jun 2016 £m	31 Dec 2016 £m
	Insurance operations			Asset management				Unallocated to a segment (central operations)	Elimination of intra-group debtors and creditors			
By operating segment	Asia C2.1	US C2.2	UK C2.3	M&G	Prudential Capital	US	Eastspring Investments			Group total	Group total	Group total
Assets												
Goodwill[C5(a)]	245	–	26	1,153	–	16	61	–	–	1,501	1,677	1,628
Deferred acquisition costs and other intangible assets[C5(b)]	2,340	8,187	168	6	–	5	4	47	–	10,757	9,594	10,807
Property, plant and equipment[note (i)]	119	224	344	4	–	8	3	25	–	727	1,214	743
Reinsurers' share of insurance contract liabilities	1,680	6,740	2,560	–	–	–	–	–	(1,271)	9,709	9,470	10,051
Deferred tax assets[C7]	85	3,678	127	20	7	130	8	50	–	4,105	3,771	4,315
Current tax recoverable	30	348	311	–	5	6	–	70	(70)	700	554	440
Accrued investment income	565	493	1,650	7	23	76	32	41	–	2,887	2,764	3,153
Other debtors	2,598	260	2,796	1,000	758	73	62	5,418	(9,548)	3,417	3,505	3,019
Investment properties	5	6	15,207	–	–	–	–	–	–	15,218	13,940	14,646
Investment in joint ventures and associates accounted for using the equity method	714	–	405	39	–	–	135	–	–	1,293	1,135	1,273
Loans[C3.3]	1,307	9,497	5,784	–	364	–	–	–	–	16,952	14,215	15,173
Equity securities and portfolio holdings in unit trusts	26,753	125,059	58,398	111	–	–	19	97	–	210,437	176,037	198,552
Debt securities[C3.2]	39,061	38,029	91,302	–	2,381	–	–	20	–	170,793	168,367	170,458
Derivative assets	102	906	2,676	–	101	–	–	4	–	3,789	5,495	3,936
Other investments	–	932	4,614	16	–	4	–	–	–	5,566	4,845	5,465
Deposits	1,243	–	11,843	–	–	18	44	205	–	13,353	14,181	12,185
Assets held for sale	–	–	33	–	–	–	–	–	–	33	30	4,589
Cash and cash equivalents	1,786	1,194	4,565	350	1,451	276	156	115	–	9,893	8,530	10,065
Total assets	78,633	195,553	202,809	2,706	5,090	612	524	6,092	(10,889)	481,130	439,324	470,498

By operating segment	30 Jun 2017 £m Insurance operations Asia C2.1	US C2.2	UK C2.3	Asset management M&G	Prudential Capital	US	Eastspring Investments	Unallocated to a segment (central operations)	Elimination of intra-group debtors and creditors	Group total	30 Jun 2016 £m Group total	31 Dec 2016 £m Group total
Total equity	5,181	5,011	6,227	1,868	61	202	382	(3,482)	–	15,450	14,606	14,667
Liabilities												
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)[C4.1(a)]	59,619	177,779	162,853	–	–	–	–	–	(1,271)	398,980	362,510	388,996
Unallocated surplus of with-profits funds[C4.1(a)]	3,003	–	12,087	–	–	–	–	–	–	15,090	13,597	14,317
Core structural borrowings of shareholder-financed operations[C6.1]	–	192	–	–	275	–	–	6,147	–	6,614	5,966	6,798
Operational borrowings attributable to shareholder-financed operations[C6.2(a)]	20	453	147	52	–	–	–	1,424	–	2,096	2,798	2,317
Borrowings attributable to with-profits operations[C6.2(b)]	20	–	3,316	–	–	–	–	–	–	3,336	1,427	1,349
Obligations under funding, securities lending and sale and repurchase agreements	–	4,518	1,890	–	–	–	–	–	–	6,408	4,963	5,031
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	3,541	–	5,036	–	–	–	–	–	–	8,577	8,770	8,687
Deferred tax liabilities[C7]	1,021	2,981	1,646	21	–	2	1	11	–	5,683	5,397	5,370
Current tax liabilities	162	58	451	37	20	2	13	70	(70)	743	566	649
Accruals, deferred income and other liabilities[note (iv)]	5,804	4,517	7,035	547	4,208	406	75	1,480	(9,548)	14,524	12,915	13,825
Provisions	138	1	350	181	–	–	53	36	–	759	467	947
Derivative liabilities	124	43	1,771	–	526	–	–	406	–	2,870	5,342	3,252
Liabilities held for sale	–	–	–	–	–	–	–	–	–	–	–	4,293
Total liabilities	73,452	190,542	196,582	838	5,029	410	142	9,574	(10,889)	465,680	424,718	455,831
Total equity and liabilities	78,633	195,553	202,809	2,706	5,090	612	524	6,092	(10,889)	481,130	439,324	470,498

Notes

(i) £409 million (30 June 2016: £910 million; 31 December 2016: £413 million) of the property, plant and equipment of £727 million (30 June 2016: £1,214 million; 31 December 2016: £743 million) was held by the Group's with-profits operations, primarily by the consolidated subsidiaries for venture funds and other investment purposes of the PAC with-profits fund. The Group made additions to property, plant and equipment of £120 million during the period (30 June 2016: £128 million; 31 December 2016: £348 million).

(ii) Reinsurers' share of contract liabilities relate primarily to the reinsurance ceded in respect of the acquired REALIC business by the Group's US insurance operations.

(iii) Within other debtors are premiums receivable of £432 million (30 June 2016: £467 million; 31 December 2016: £498 million) of which 77 per cent are due within one year. The remaining 23 per cent is due after one year.

(iv) Within 'Accruals, deferred income and other liabilities' of £14,524 million (30 June 2016: £12,915 million; 31 December 2016: £13,825 million) is an amount of £8,575 million (30 June 2016: £7,506 million; 31 December 2016: £9,873 million) that is due within one year.

C2 Analysis of segment statement of financial position by business type

To show the statement of financial position by reference to the differing degrees of policyholder and shareholder economic interest of the different types of business, the analysis below is structured to show the assets and liabilities of each segment by business type.

C2.1 Asia insurance operations

		2017 £m				2016 £m	
	Note	With-profits business	Unit-linked assets and liabilities	Other business	30 Jun Total	30 Jun Total	31 Dec Total
Assets							
Goodwill		–	–	245	245	258	245
Deferred acquisition costs and other intangible assets		31	–	2,309	2,340	2,356	2,316
Property, plant and equipment		82	–	37	119	88	121
Reinsurers' share of insurance contract liabilities		50	–	1,630	1,680	1,564	1,539
Deferred tax assets		–	–	85	85	92	98
Current tax recoverable		–	–	30	30	38	29
Accrued investment income		253	60	252	565	570	521
Other debtors		1,847	189	562	2,598	3,229	2,633
Investment properties		–	–	5	5	5	5
Investment in joint ventures and associates accounted for using the equity method		–	–	714	714	525	688
Loans	C3.3	702	–	605	1,307	1,278	1,303
Equity securities and portfolio holdings in unit trusts		12,821	12,397	1,535	26,753	22,631	23,581
Debt securities	C3.2	23,398	3,442	12,221	39,061	35,519	36,546
Derivative assets		58	3	41	102	79	47
Deposits		307	393	543	1,243	912	1,379
Assets held for sale		–	–	–	–	–	3,863
Cash and cash equivalents		733	234	819	1,786	2,010	1,995
Total assets		40,282	16,718	21,633	78,633	71,154	76,909
Total equity		–	–	5,181	5,181	4,874	4,993
Liabilities							
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	C4.1(b)	31,549	15,326	12,744	59,619	53,437	55,018
Unallocated surplus of with-profits funds	C4.1(b)	3,003	–	–	3,003	2,351	2,667
Operational borrowings attributable to shareholder-financed operations		–	13	7	20	11	19
Borrowings attributable to with-profits operations		20	–	–	20	6	4
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		2,114	1,201	226	3,541	3,379	3,093
Deferred tax liabilities		705	38	278	1,021	905	935
Current tax liabilities		64	–	98	162	109	113
Accruals, deferred income and other liabilities		2,667	138	2,999	5,804	5,838	5,887
Provisions		48	–	90	138	115	157
Derivative liabilities		112	2	10	124	129	265
Liabilities held for sale		–	–	–	–	–	3,758
Total liabilities		40,282	16,718	16,452	73,452	66,280	71,916
Total equity and liabilities		40,282	16,718	21,633	78,633	71,154	76,909

Note
The statement of financial position for with-profits business comprises the with-profits assets and liabilities of the Hong Kong, Malaysia and Singapore operations. Assets and liabilities of other participating businesses are included in the column for 'Other business'.

C2.2 US insurance operations

	Note	2017 £m			2016 £m	
		Variable annuity separate account assets and liabilities	Fixed annuity, GIC and other business	30 Jun Total	30 Jun Total	31 Dec Total
Assets						
Deferred acquisition costs and other intangible assets		–	8,187	8,187	7,081	8,323
Property, plant and equipment		–	224	224	213	237
Reinsurers' share of insurance contract liabilities		–	6,740	6,740	6,859	7,224
Deferred tax assets		–	3,678	3,678	3,369	3,861
Current tax recoverable		–	348	348	254	95
Accrued investment income		–	493	493	520	549
Other debtors		–	260	260	18	295
Investment properties		–	6	6	5	6
Loans	C3.3	–	9,497	9,497	8,504	9,735
Equity securities and portfolio holdings in unit trusts		124,735	324	125,059	104,124	120,747
Debt securities	C3.2	–	38,029	38,029	41,143	40,745
Derivative assets		–	906	906	1,608	834
Other investments		–	932	932	895	987
Cash and cash equivalents		–	1,194	1,194	1,056	1,054
Total assets		124,735	70,818	195,553	175,649	194,692
Total equity		–	5,011	5,011	5,056	5,204
Liabilities						
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	C4.1(c)	124,735	53,044	177,779	159,155	177,626
Core structural borrowings of shareholder-financed operations		–	192	192	186	202
Operational borrowings attributable to shareholder-financed operations		–	453	453	70	480
Obligations under funding, securities lending and sale and repurchase agreements		–	4,518	4,518	3,144	3,534
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		–	–	–	23	–
Deferred tax liabilities		–	2,981	2,981	3,204	2,831
Current tax liabilities		–	58	58	–	–
Accruals, deferred income and other liabilities		–	4,517	4,517	4,385	4,749
Provisions		–	1	1	5	2
Derivative liabilities		–	43	43	421	64
Total liabilities		124,735	65,807	190,542	170,593	189,488
Total equity and liabilities		124,735	70,818	195,553	175,649	194,692

C2 Analysis of segment statement of financial position by business type continued

C2.3 UK insurance operations

		2017 £m					2016 £m	
			Other funds and subsidiaries					
By operating segment	Note	With-profits sub-funds note (i)	Unit-linked assets and liabilities	Annuity and other long-term business	Total	30 Jun Total	30 Jun Total	31 Dec Total
Assets								
Goodwill		26	–	–	–	26	189	153
Deferred acquisition costs and other intangible assets		82	–	86	86	168	89	107
Property, plant and equipment		327	–	17	17	344	866	343
Reinsurers' share of insurance contract liabilities		1,308	135	1,117	1,252	2,560	2,362	2,590
Deferred tax assets		73	–	54	54	127	139	146
Current tax recoverable		179	–	132	132	311	256	283
Accrued investment income		1,040	93	517	610	1,650	1,518	1,915
Other debtors		1,895	224	677	901	2,796	2,778	2,447
Investment properties		12,962	650	1,595	2,245	15,207	13,930	14,635
Investment in joint ventures and associates accounted for using the equity method		405	–	–	–	405	462	409
Loans	C3.3	4,036	–	1,748	1,748	5,784	3,616	3,572
Equity securities and portfolio holdings in unit trusts		43,023	15,339	36	15,375	58,398	49,150	54,037
Debt securities	C3.2	49,165	6,743	35,394	42,137	91,302	89,114	90,796
Derivative assets		2,183	3	490	493	2,676	3,563	2,927
Other investments		4,608	5	1	6	4,614	3,926	4,449
Deposits		9,542	968	1,333	2,301	11,843	13,184	10,705
Assets held for sale note (ii)		33	–	–	–	33	30	726
Cash and cash equivalents		3,230	762	573	1,335	4,565	3,445	4,703
Total assets		134,117	24,922	43,770	68,692	202,809	188,617	194,943

By operating segment	Note	2017 £m With-profits sub-funds note (i)	Other funds and subsidiaries: Unit-linked assets and liabilities	Other funds and subsidiaries: Annuity and other long-term business	Other funds and subsidiaries: Total	30 Jun Total	2016 £m 30 Jun Total	31 Dec Total
Total equity		–	–	6,227	6,227	6,227	6,163	5,999
Liabilities								
Contract liabilities (including amounts in respect of contracts classified as investment contracts under IFRS 4)	C4.1(d)	106,362	22,917	33,574	56,491	162,853	151,233	157,654
Unallocated surplus of with-profits funds	C4.1(d)	12,087	–	–	–	12,087	11,246	11,650
Operational borrowings attributable to shareholder-financed operations		–	4	143	147	147	163	167
Borrowings attributable to with-profits operations		3,316	–	–	–	3,316	1,421	1,345
Obligations under funding, securities lending and sale and repurchase agreements		1,216	–	674	674	1,890	1,619	1,497
Net asset value attributable to unit holders of consolidated unit trusts and similar funds		3,152	1,856	28	1,884	5,036	5,368	5,594
Deferred tax liabilities		1,354	–	292	292	1,646	1,253	1,577
Current tax liabilities		246	68	137	205	451	363	447
Accruals, deferred income and other liabilities		5,604	76	1,355	1,431	7,035	5,896	6,176
Provisions		62	–	288	288	350	156	442
Derivative liabilities		718	1	1,052	1,053	1,771	3,736	1,860
Liabilities held for sale note (ii)		–	–	–	–	–	–	535
Total liabilities		134,117	24,922	37,543	62,465	196,582	182,454	188,944
Total equity and liabilities		134,117	24,922	43,770	68,692	202,809	188,617	194,943

Notes

(i) Includes the Scottish Amicable Insurance Fund which, at 30 June 2017, has total assets and liabilities of £5,943 million (30 June 2016: £6,282 million; 31 December 2016: £6,101 million). The PAC with-profits sub-fund mainly contains with-profits business but it also contains some non-profit business (unit-linked, term assurances and annuities). The PAC with-profits fund includes £10.9 billion (30 June 2016: £11.3 billion; 31 December 2016: £11.2 billion) of non-profit annuities liabilities.

(ii) The assets and liabilities held for sale for the UK insurance operations comprise the investment properties and consolidated private equity investments of the PAC with-profits fund, for which the sales had been agreed but not yet completed at the period end.

C3 Assets and liabilities – classification and measurement

C3.1 Group assets and liabilities – measurement

(a) Determination of fair value

The fair values of the financial instruments for which fair valuation is required under IFRS are determined by the use of current market bid prices for exchange-quoted investments, or by using quotations from independent third parties, such as brokers and pricing services, or by using appropriate valuation techniques.

The estimated fair value of derivative financial instruments reflects the estimated amount the Group would receive or pay in an arm's length transaction. This amount is determined using quoted prices if exchange listed, quotations from independent third parties, or valued internally using standard market practices.

Other than the loans which have been designated at fair value through profit or loss, the loans and receivables have been shown net of provisions for impairment. The fair value of loans has been estimated from discounted cash flows expected to be received. The discount rate used is updated for the market rate of interest where applicable.

The fair value of investment properties is based on market values as assessed by professionally qualified external valuers or by the Group's qualified surveyors.

The fair value of financial liabilities (other than derivative financial instruments) and borrowings that are carried at fair value through profit or loss is determined using discounted cash flows of the amounts expected to be paid.

C3 Assets and liabilities – classification and measurement continued

C3.1 Group assets and liabilities – measurement continued

(b) Fair value hierarchy of financial instruments measured at fair value on recurring basis

Assets and liabilities carried at fair value on the statement of financial position

The table below shows the financial instruments carried at fair value analysed by the level of the IFRS 13 'Fair Value Measurement' defined fair value hierarchy. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement.

Financial instruments at fair value

	30 Jun 2017 £m			
	Level 1	Level 2	Level 3	
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs	Total
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Loans	–	–	1,906	1,906
Equity securities and portfolio holdings in unit trusts	51,136	4,282	426	55,844
Debt securities	28,122	44,145	296	72,563
Other investments (including derivative assets)	73	3,310	3,464	6,847
Derivative liabilities	(79)	(752)	–	(831)
Total financial investments, net of derivative liabilities	79,252	50,985	6,092	136,329
Percentage of total	58%	38%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	152,050	399	23	152,472
Debt securities	5,243	4,943	–	10,186
Other investments (including derivative assets)	4	3	4	11
Derivative liabilities	(2)	–	–	(2)
Total financial investments, net of derivative liabilities	157,295	5,345	27	162,667
Percentage of total	97%	3%	0%	100%
Non-linked shareholder-backed				
Loans	–	309	2,594	2,903
Equity securities and portfolio holdings in unit trusts	2,104	7	10	2,121
Debt securities	21,525	66,233	286	88,044
Other investments (including derivative assets)	–	1,501	996	2,497
Derivative liabilities	(26)	(1,551)	(460)	(2,037)
Total financial investments, net of derivative liabilities	23,603	66,499	3,426	93,528
Percentage of total	25%	71%	4%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans	–	309	4,500	4,809
Equity securities and portfolio holdings in unit trusts	205,290	4,688	459	210,437
Debt securities	54,890	115,321	582	170,793
Other investments (including derivative assets)	77	4,814	4,464	9,355
Derivative liabilities	(107)	(2,303)	(460)	(2,870)
Total financial investments, net of derivative liabilities	260,150	122,829	9,545	392,524
Investment contract liabilities without discretionary participation features held at fair value	–	(17,166)	–	(17,166)
Borrowings attributable to with-profits operations	–	–	(1,816)	(1,816)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(5,719)	(2,421)	(437)	(8,577)
Other financial liabilities held at fair value	–	(394)	(2,766)	(3,160)
Total financial instruments at fair value	254,431	102,848	4,526	361,805
Percentage of total	70%	29%	1%	100%

	30 Jun 2016 £m			
	Level 1	Level 2	Level 3	
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs	Total
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Equity securities and portfolio holdings in unit trusts	38,596	3,969	630	43,195
Debt securities	24,430	42,741	662	67,833
Other investments (including derivative assets)	103	3,157	3,674	6,934
Derivative liabilities	(192)	(2,536)	–	(2,728)
Total financial investments, net of derivative liabilities	62,937	47,331	4,966	115,234
Percentage of total	55%	41%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	130,977	401	27	131,405
Debt securities	4,956	5,059	–	10,015
Other investments (including derivative assets)	11	38	5	54
Derivative liabilities	(19)	(51)	–	(70)
Total financial investments, net of derivative liabilities	135,925	5,447	32	141,404
Percentage of total	96%	4%	0%	100%
Non-linked shareholder-backed				
Loans	–	259	2,448	2,707
Equity securities and portfolio holdings in unit trusts	1,402	1	34	1,437
Debt securities	23,379	66,823	317	90,519
Other investments (including derivative assets)	–	2,369	983	3,352
Derivative liabilities	–	(2,064)	(480)	(2,544)
Total financial investments, net of derivative liabilities	24,781	67,388	3,302	95,471
Percentage of total	26%	71%	3%	100%

Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans	–	259	2,448	2,707
Equity securities and portfolio holdings in unit trusts	170,975	4,371	691	176,037
Debt securities	52,765	114,623	979	168,367
Other investments (including derivative assets)	114	5,564	4,662	10,340
Derivative liabilities	(211)	(4,651)	(480)	(5,342)
Total financial investments, net of derivative liabilities	223,643	120,166	8,300	352,109
Investment contract liabilities without discretionary participation features held at fair value	–	(16,178)	–	(16,178)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(5,275)	(2,427)	(1,068)	(8,770)
Other financial liabilities held at fair value	–	(375)	(2,616)	(2,991)
Total financial instruments at fair value	218,368	101,186	4,616	324,170
Percentage of total	67%	31%	2%	100%

C3 Assets and liabilities – classification and measurement continued

C3.1 Group assets and liabilities – measurement continued

	31 Dec 2016 £m			
	Level 1	Level 2	Level 3	
	Quoted prices (unadjusted) in active markets	Valuation based on significant observable market inputs	Valuation based on significant unobservable market inputs	Total
Analysis of financial investments, net of derivative liabilities by business type				
With-profits				
Loans	–	–	27	27
Equity securities and portfolio holdings in unit trusts	45,181	3,669	690	49,540
Debt securities	26,227	43,880	690	70,797
Other investments (including derivative assets)	58	3,357	3,443	6,858
Derivative liabilities	(51)	(1,025)	–	(1,076)
Total financial investments, net of derivative liabilities	71,415	49,881	4,850	126,146
Percentage of total	56%	40%	4%	100%
Unit-linked and variable annuity separate account				
Equity securities and portfolio holdings in unit trusts	146,637	374	22	147,033
Debt securities	5,136	4,462	–	9,598
Other investments (including derivative assets)	6	8	5	19
Derivative liabilities	(4)	(24)	–	(28)
Total financial investments, net of derivative liabilities	151,775	4,820	27	156,622
Percentage of total	97%	3%	0%	100%
Non-linked shareholder-backed				
Loans	–	276	2,672	2,948
Equity securities and portfolio holdings in unit trusts	1,966	3	10	1,979
Debt securities	21,896	67,915	252	90,063
Other investments (including derivative assets)	–	1,492	1,032	2,524
Derivative liabilities	(9)	(1,623)	(516)	(2,148)
Total financial investments, net of derivative liabilities	23,853	68,063	3,450	95,366
Percentage of total	25%	71%	4%	100%
Group total analysis, including other financial liabilities held at fair value				
Group total				
Loans	–	276	2,699	2,975
Equity securities and portfolio holdings in unit trusts	193,784	4,046	722	198,552
Debt securities	53,259	116,257	942	170,458
Other investments (including derivative assets)	64	4,857	4,480	9,401
Derivative liabilities	(64)	(2,672)	(516)	(3,252)
Total financial investments, net of derivative liabilities	247,043	122,764	8,327	378,134
Investment contract liabilities without discretionary participation features held at fair value	–	(16,425)	–	(16,425)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(4,217)	(3,587)	(883)	(8,687)
Other financial liabilities held at fair value	–	(385)	(2,851)	(3,236)
Total financial instruments at fair value	242,826	102,367	4,593	349,786
Percentage of total	70%	29%	1%	100%

All assets and liabilities held at fair value are classified as fair value through profit or loss, except for £37,936 million (30 June 2016: £41,045 million; 31 December 2016: £40,645 million) of debt securities classified as available-for-sale.

The Korea life business was classified as held for sale in the second half of 2016, with the sale completed in May 2017. Accordingly, the financial instruments shown above only included the assets and liabilities of Korea life business as at 30 June 2016 (prior to its classification as held for sale). The assets and liabilities held for sale on the consolidated statement of financial position at 31 December 2016 in respect of Korea life business included a net financial instruments balance of £3,200 million, primarily for equity securities and debt securities. Of this amount, £2,763 million was classified as level 1 and £437 million as level 2.

(c) Valuation approach for level 2 fair valued financial instruments

A significant proportion of the Group's level 2 assets are corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using independent pricing services or third-party broker quotes. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades. For further detail on the valuation approach for level 2 fair valued financial instruments please refer to note C3.1 of the Group's consolidated financial statements for the year ended 31 December 2016.

Of the total level 2 debt securities of £115,321 million at 30 June 2017 (30 June 2016: £114,623 million; 31 December 2016: £116,257 million), £13,596 million are valued internally (30 June 2016: £11,867 million; 31 December 2016: £12,708 million). The majority of such securities are valued using matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities of a comparable duration. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring in a specified liquidity premium. The majority of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

(d) Fair value measurements for level 3 fair valued financial instruments

Reconciliation of movements in level 3 financial instruments measured at fair value

The following table reconciles the value of level 3 fair valued financial instruments at 1 January 2017 to that presented at 30 June 2017.

Total investment return recorded in the income statement represents interest and dividend income, realised gains and losses, unrealised gains and losses on the assets classified at fair value through profit and loss and foreign exchange movements on an individual entity's overseas investments.

Total gains and losses recorded in other comprehensive income includes unrealised gains and losses on debt securities held as available-for-sale within Jackson and foreign exchange movements arising from the retranslation of the Group's overseas subsidiaries and branches.

C3 Assets and liabilities – classification and measurement continued

C3.1 Group assets and liabilities – measurement continued

	Half year 2017 £m									
	At 1 Jan 2017	Total gains (losses) in income statement	Total gains (losses) recorded in other compre-hensive income	Purchases	Sales	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 30 Jun 2017
Loans	2,699	96	(132)	1,879	–	(70)	28	–	–	4,500
Equity securities and portfolio holdings in unit trusts	722	(17)	(2)	175	(418)	–	–	–	(1)	459
Debt securities	942	2	(11)	142	(471)	–	–	–	(22)	582
Other investments (including derivative assets)	4,480	84	(64)	191	(227)	–	–	–	–	4,464
Derivative liabilities	(516)	56	–	–	–	–	–	–	–	(460)
Total financial investments, net of derivative liabilities	8,327	221	(209)	2,387	(1,116)	(70)	28	–	(23)	9,545
Borrowings attributable to with-profits operations	–	2	–	–	–	–	(1,818)	–	–	(1,816)
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(883)	(357)	–	–	(167)	1,017*	(47)	–	–	(437)
Other financial liabilities	(2,851)	(96)	141	–	(1)	73	(32)	–	–	(2,766)
Total financial instruments at fair value	4,593	(230)	(68)	2,387	(1,284)	1,020	(1,869)	–	(23)	4,526

	Half year 2016 £m									
	At 1 Jan 2016	Total gains (losses) in income statement	Total gains (losses) recorded in other compre-hensive income	Purchases	Sales	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 30 Jun 2016
Loans	2,183	79	227	–	–	(64)	23	–	–	2,448
Equity securities and portfolio holdings in unit trusts	607	(13)	11	81	(4)	–	–	9	–	691
Debt securities	778	66	7	120	(17)	–	–	30	(5)	979
Other investments (including derivative assets)	4,276	184	265	377	(473)	–	–	33	–	4,662
Derivative liabilities	(353)	(127)	–	–	–	–	–	–	–	(480)
Total financial investments, net of derivative liabilities	7,491	189	510	578	(494)	(64)	23	72	(5)	8,300
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,036)	24	(2)	–	1	62*	(117)	–	–	(1,068)
Other financial liabilities	(2,347)	(84)	(243)	–	–	99	(41)	–	–	(2,616)
Total financial instruments at fair value	4,108	129	265	578	(493)	97	(135)	72	(5)	4,616

	Full year 2016 £m									
	At 1 Jan 2016	Total gains (losses) in income statement	Total gains (losses) recorded in other compre-hensive income	Purchases	Sales	Settled	Issued	Transfers into level 3	Transfers out of level 3	At 31 Dec 2016
Loans	2,183	2	427	–	–	(123)	210	–	–	2,699
Equity securities and portfolio holdings in unit trusts	607	59	(20)	153	(133)	(9)	–	65	–	722
Debt securities	778	85	11	185	(75)	(37)	–	–	(5)	942
Other investments (including derivative assets)	4,276	359	443	720	(1,002)	–	–	73	(389)	4,480
Derivative liabilities	(353)	(163)	–	–	–	–	–	–	–	(516)
Total financial investments, net of derivative liabilities	7,491	342	861	1,058	(1,210)	(169)	210	138	(394)	8,327
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	(1,036)	(18)	(2)	–	24	271*	(122)	–	–	(883)
Other financial liabilities	(2,347)	(4)	(457)	–	–	259	(302)	–	–	(2,851)
Total financial instruments at fair value	4,108	320	402	1,058	(1,186)	361	(214)	138	(394)	4,593

* Includes distributions to third-party investors by subsidiaries held by the UK with-profits funds for investment purposes. These distributions vary period to period depending on the maturity of the subsidiaries and the gains realised by those entities in the period.

Of the total net gains and losses in the income statement of £(230) million (30 June 2016: £129 million; 31 December 2016: £320 million), £(234) million (30 June 2016: £92 million; 31 December 2016: £242 million) relates to net unrealised gains (losses) relating to financial instruments still held at the end of the period, which can be analysed as follows:

	2017 £m	2016 £m	
	30 Jun	30 Jun	31 Dec
Equity securities	21	(14)	8
Debt securities	2	65	71
Other investments	42	149	182
Derivative liabilities	56	(127)	–
Net asset value attributable to unit holders of consolidated unit trusts and similar funds	2	23	(18)
Other financial liabilities	(357)	(4)	(1)
Total	(234)	92	242

C3 Assets and liabilities – classification and measurement continued

C3.1 Group assets and liabilities – measurement continued

Valuation approach for level 3 fair valued financial instruments

Investments valued using valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades, and financial investments for which markets are no longer active as a result of market conditions, eg market illiquidity. The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option-adjusted spread models and, if applicable, enterprise valuation. For further detail on the valuation approach for level 3 fair valued financial instruments, please refer to note C3.1 of the Group's consolidated financial statements for the year ended 31 December 2016.

At 30 June 2017, the Group held £4,526 million (30 June 2016: £4,616 million; 31 December 2016: £4,593 million) of net financial instruments at fair value within level 3. This represents 1 per cent (30 June 2016: 2 per cent; 31 December 2016: 1 per cent) of the total fair valued financial assets net of fair valued financial liabilities.

The net financial instruments at fair value within level 3 at 30 June 2017 include £1,906 million of loans and a corresponding £1,816 million of borrowings held by a subsidiary of the Group's UK with-profits fund, attaching to the acquisition of a portfolio of buy-to-let mortgage loans in half year 2017 financed largely by external third-party (non-recourse) borrowings (see note C3.3(c) for further details). The fair value of these loans and the related borrowings is determined by an external valuer using the income approach, with the most significant inputs into the valuation being non-observable assumptions on the future level of defaults and prepayments and their effect on cash flows. The discount rate applied is updated to reflect changes in the LIBOR swap rate. The Group's exposure is limited to the investment held by the UK with-profits fund, rather than to the individual loans and borrowings themselves. The fair value movements of these loans and borrowings have no effect on shareholders' profit and equity.

Included within these amounts were loans of £2,594 million at 30 June 2017 (30 June 2016: £2,448 million; 31 December 2016: £2,672 million), measured as the loan outstanding balance attached to REALIC and held to back the liabilities for funds withheld under reinsurance arrangements. The funds withheld liability of £2,766 million at 30 June 2017 (30 June 2016: £2,616 million; 31 December 2016: £2,851 million) was also classified within level 3, accounted for on a fair value basis being equivalent to the carrying value of the underlying assets.

Excluding the loans and funds withheld liability under REALIC's reinsurance arrangements as described above, which amounted to a net liability of £(172) million (30 June 2016: £(168) million; 31 December 2016: £(179) million), the level 3 fair valued financial assets net of financial liabilities were £4,698 million (30 June 2016: £4,784 million; 31 December 2016: £4,772 million). Of this amount, a net liability of £(218) million (30 June 2016: net asset of £47 million; 31 December 2016: net asset of £72 million) was internally valued, representing 0.1 per cent of the total fair valued financial assets net of financial liabilities (30 June 2016: 0.0 per cent; 31 December 2016: 0.1 per cent). Internal valuations are inherently more subjective than external valuations. Included within these internally valued net liabilities were:

(a) Debt securities of £446 million (30 June 2016: £463 million; 31 December 2016: £422 million), which were either valued on a discounted cash flow method with an internally developed discount rate or on external prices adjusted to reflect the specific known conditions relating to these securities (eg distressed securities or securities which were being restructured);
(b) Private equity and venture investments of £176 million (30 June 2016: £1,038 million; 31 December 2016: £956 million) which were valued internally based on management information available for these investments. These investments, in the form of debt and equity securities, were principally held by consolidated investment funds which are managed on behalf of third parties;
(c) Liabilities of £(437) million (30 June 2016: £(1,045) million; 31 December 2016: £(883) million) for the net asset value attributable to external unit holders in respect of the consolidated investment funds, which are non-recourse to the Group. These liabilities are valued by reference to the underlying assets;
(d) Derivative liabilities of £(460) million (30 June 2016: £(480) million; 31 December 2016: £(516) million) which are valued internally using standard market practices but are subject to independent assessment against counterparties' valuations; and
(e) Other sundry individual financial investments of £57 million (30 June 2016: £71 million; 31 December 2016: £93 million).

Of the internally valued net liability referred to above of £(218) million (30 June 2016: net asset of £47 million; 31 December 2016: net asset of £72 million):

(a) A net liability of £(97) million (30 June 2016: net asset of £303 million; 31 December 2016: net asset of £315 million) was held by the Group's participating funds and therefore shareholders' profit and equity are not impacted by movements in the valuation of these financial instruments; and
(b) A net liability of £(121) million (30 June 2016: net liability of £(256) million; 31 December 2016: net liability of £(243) million) was held to support non-linked shareholder-backed business. If the value of all the level 3 instruments held to support non-linked shareholder-backed business valued internally was varied downwards by 10 per cent, the change in valuation would be £12 million (30 June 2016: £26 million; 31 December 2016: £24 million), which would increase (reduce) shareholders' equity by this amount before tax. All this amount passes through the income statement substantially as part of short-term fluctuations in investment returns outside of operating profit.

(e) Transfers into and transfers out of levels

The Group's policy is to recognise transfers into and transfers out of levels as of the end of each half year reporting period except for material transfers which are recognised as of the date of the event or change in circumstances that caused the transfer.

During half year 2017, the transfers between levels within the Group's portfolio were primarily transfers from level 1 to 2 of £119 million and transfers from level 2 to level 1 of £400 million. These transfers, which primarily relate to debt securities, arose to reflect the change in the observability of the inputs used in valuing these securities.

In addition, the transfers out of level 3 in half year 2017 were £23 million. These transfers were primarily between levels 3 and 2 for debt securities and other investments. There were no transfers into level 3 in the period.

(f) Valuation processes applied by the Group

The Group's valuation policies, procedures and analyses for instruments categorised as level 3 are overseen by business unit committees as part of the Group's wider financial reporting governance processes. The procedures undertaken include approval of valuation methodologies, verification processes, and resolution of significant or complex valuation issues. In undertaking these activities the Group makes use of the extensive expertise of its asset management functions.

C3.2 Debt securities

This note provides analysis of the Group's debt securities, including asset-backed securities and sovereign debt securities.

(a) Credit rating

Debt securities are analysed below according to external credit ratings issued, with equivalent ratings issued by different ratings agencies grouped together. Standard and Poor's ratings have been used where available, if this isn't the case Moody's and then Fitch have been used as alternatives. In the table below, AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB- ratings. Financial assets which fall outside this range are classified as below BBB-. Debt securities with no external credit rating are classified as 'Other'.

	30 Jun 2017 £m						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
Asia							
With-profits	3,168	9,722	3,540	3,201	1,789	1,978	23,398
Unit-linked	501	129	526	1,502	323	461	3,442
Non-linked shareholder-backed	1,138	2,758	3,035	2,699	1,645	946	12,221
US							
Non-linked shareholder-backed	455	6,739	10,318	13,526	1,046	5,945	38,029
UK							
With-profits	5,965	9,872	10,827	12,577	3,481	6,443	49,165
Unit-linked	597	2,871	1,131	1,856	176	112	6,743
Non-linked shareholder-backed	4,481	10,313	10,396	4,036	388	5,780	35,394
Other operations	819	1,275	192	95	14	6	2,401
Total debt securities	17,124	43,679	39,965	39,492	8,862	21,671	170,793

C3 Assets and liabilities – classification and measurement continued

C3.2 Debt securities continued

	30 Jun 2016 £m						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
Asia							
With-profits	2,894	7,756	3,132	2,982	1,925	1,889	20,578
Unit-linked	420	467	508	1,285	247	500	3,427
Non-linked shareholder-backed	1,013	3,126	2,944	1,961	1,450	1,020	11,514
US							
Non-linked shareholder-backed	3,761	6,190	10,137	13,379	888	6,788	41,143
UK							
With-profits	4,979	9,416	10,318	13,091	2,972	6,479	47,255
Unit-linked	404	2,488	1,218	2,042	339	97	6,588
Non-linked shareholder-backed	4,190	11,399	9,741	4,571	416	4,954	35,271
Other operations	1,024	1,165	286	112	2	2	2,591
Total debt securities	18,685	42,007	38,284	39,423	8,239	21,729	168,367

	31 Dec 2016 £m						
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	Below BBB-	Other	Total
Asia							
With-profits	3,183	8,522	3,560	2,996	1,887	1,713	21,861
Unit-linked	448	112	525	1,321	494	421	3,321
Non-linked shareholder-backed	1,082	2,435	2,864	2,388	1,680	915	11,364
US							
Non-linked shareholder-backed	445	7,932	10,609	13,950	1,009	6,800	40,745
UK							
With-profits	5,740	9,746	10,679	12,798	3,289	6,684	48,936
Unit-linked	461	2,660	1,158	1,699	212	87	6,277
Non-linked shareholder-backed	4,238	10,371	10,558	4,515	397	5,504	35,583
Other operations	830	1,190	242	97	10	2	2,371
Total debt securities	16,427	42,968	40,195	39,764	8,978	22,126	170,458

The credit ratings, information or data contained in this report which are attributed and specifically provided by S&P, Moody's and Fitch Solutions and their respective affiliates and suppliers (Content Providers) is referred to here as the 'Content'. Reproduction of any Content in any form is prohibited except with the prior written permission of the relevant party. The Content Providers do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. The Content Providers expressly disclaim liability for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content. A reference to a particular investment or security, a rating or any observation concerning an investment that is part of the Content is not a recommendation to buy, sell or hold any such investment or security, nor does it address the suitability of an investment or security and should not be relied on as investment advice.

Securities with credit ratings classified as 'Other' can be further analysed as follows:

	2017 £m	2016 £m	
	30 Jun	30 Jun	31 Dec
Asia			
Non-linked shareholder-backed			
Internally rated			
Government bonds	40	207	63
Corporate bonds – rated as investment grade by local external ratings agencies	821	582	757
Other	85	231	95
Total Asia non-linked shareholder-backed	946	1,020	915

	2017 £m			2016 £m	
	Mortgage -backed securities	Other securities	30 Jun Total	30 Jun Total	31 Dec Total
US					
Implicit ratings of other US debt securities based on NAIC* valuations (see below)					
NAIC 1	1,926	2,018	3,944	4,776	4,759
NAIC 2	10	1,893	1,903	1,868	1,909
NAIC 3-6	7	91	98	144	132
Total US	1,943	4,002	5,945	6,788	6,800

* The Securities Valuation Office of the NAIC classifies debt securities into six quality categories ranging from Class 1 (the highest) to Class 6 (the lowest). Performing securities are designated as Classes 1 to 5 and securities in or near default are designated Class 6.

	2017 £m	2016 £m	
	30 Jun	30 Jun	31 Dec
UK			
Internal ratings or unrated			
AAA to A-	7,494	6,584	6,939
BBB to B-	3,180	3,284	3,257
Below B- or unrated	1,661	1,662	2,079
Total UK	12,335	11,530	12,275

In addition to the debt securities shown above, the assets held for sale on the consolidated statement of financial position at 31 December 2016 in respect of Korea life business included a debt securities balance of £652 million.

C3 Assets and liabilities – classification and measurement continued

C3.2 Debt securities continued

(b) Additional analysis of US insurance operations debt securities

	2017 £m	2016 £m	
	30 Jun	30 Jun	31 Dec
Corporate and government securities and commercial loans:			
Government	4,884	7,151	5,856
Publicly traded and SEC Rule 144A securities*	24,971	24,894	25,992
Non-SEC Rule 144A securities	4,543	4,302	4,576
Asset-backed securities (see note (e))	3,631	4,796	4,321
Total US debt securities†	38,029	41,143	40,745

* A 1990 SEC rule that facilitates the resale of privately placed securities under Rule 144A that are without SEC registration to qualified institutional investors. The rule was designed to develop a more liquid and efficient institutional resale market for unregistered securities.
† Debt securities for US operations included in the statement of financial position comprise:

	2017 £m	2016 £m	
	30 Jun	30 Jun	31 Dec
Available-for-sale	37,936	41,045	40,645
Fair value through profit and loss:			
Securities held to back liabilities for funds withheld under reinsurance arrangement	93	98	100
	38,029	41,143	40,745

Realised gains and losses, including impairments, recorded in the income statement are as shown in note B1.2 of this report.

(c) Movements in unrealised gains and losses on Jackson available-for-sale securities

There was a movement in the statement of financial position value for debt securities classified as available-for-sale from a net unrealised gain of £676 million to a net unrealised gain of £1,157 million as analysed in the table below:

	30 Jun 2017 £m	Foreign exchange translation†	Changes in unrealised appreciation	31 Dec 2016 £m
		Reflected as part of movement in other comprehensive income		
Assets fair valued at below book value				
Book value*	8,760			14,617
Unrealised (loss) gain	(306)	22	347	(675)
Fair value (as included in statement of financial position)	8,454			13,942
Assets fair valued at or above book value				
Book value*	28,019			25,352
Unrealised gain (loss)	1,463	(72)	184	1,351
Fair value (as included in statement of financial position)	29,482			26,703
Total				
Book value*	36,779			39,969
Net unrealised gain (loss)	1,157	(50)	531	676
Fair value (as included in the footnote above in the overview table and the statement of financial position)	37,936			40,645

The available-for-sale debt securities of Jackson are analysed into US Treasuries and other debt securities as follows:

	30 Jun 2017 £m	Foreign exchange translation†	Changes in unrealised appreciation	31 Dec 2016 £m
		Reflected as part of movement in other comprehensive income		
US Treasuries				
Book value*	4,415			5,486
Unrealised (loss) gain	(186)	13	213	(412)
Fair value	4,229			5,074
Other debt securities				
Book value*	32,364			34,483
Unrealised gain (loss)	1,343	(63)	318	1,088
Fair value	33,707			35,571
Total debt securities				
Book value*	36,779			39,969
Net unrealised gain (loss)	1,157	(50)	531	676
Fair value	37,936			40,645

* Book value represents cost/amortised cost of the debt securities.
† Translated at the average rate of US$1.2599: £1.00.

(d) US debt securities classified as available-for-sale in an unrealised loss position

(i) Fair value of securities as a percentage of book value

The following table shows the fair value of the debt securities in a gross unrealised loss position for various percentages of book value:

	30 Jun 2017 £m		30 Jun 2016 £m		31 Dec 2016 £m	
	Fair value	Unrealised loss	Fair value	Unrealised loss	Fair value	Unrealised loss
Between 90% and 100%	7,962	(236)	1,848	(51)	12,326	(405)
Between 80% and 90%	482	(64)	304	(52)	1,598	(259)
Below 80%:						
Residential mortgage-backed securities – sub-prime	–	–	–	–	–	–
Commercial mortgage-backed securities	–	–	8	(3)	8	(3)
Other asset-backed securities	10	(6)	9	(7)	9	(8)
Government bonds	–	–	–	–	–	–
Corporates	–	–	19	(6)	1	–
	10	(6)	36	(16)	18	(11)
Total	8,454	(306)	2,188	(119)	13,942	(675)

(ii) Unrealised loss by maturity of security

	2017 £m	2016 £m	
	30 Jun	30 Jun	31 Dec
1 year to 5 years	(5)	(10)	(7)
5 years to 10 years	(48)	(38)	(118)
More than 10 years	(231)	(42)	(510)
Mortgage-backed and other debt securities	(22)	(29)	(40)
Total	(306)	(119)	(675)

C3 Assets and liabilities – classification and measurement continued

C3.2 Debt securities continued

(iii) Age analysis of unrealised losses for the periods indicated

The following table shows the age analysis of all the unrealised losses in the portfolio by reference to the length of time the securities have been in an unrealised loss position:

	30 Jun 2017 £m			30 Jun 2016 £m			31 Dec 2016 £m		
Age analysis	Non-investment grade	Investment grade	Total	Non-investment grade	Investment grade	Total	Non-investment grade	Investment grade	Total
Less than 6 months	(1)	(15)	(16)	(2)	(5)	(7)	(3)	(599)	(602)
6 months to 1 year	–	(251)	(251)	(4)	(8)	(12)	–	(2)	(2)
1 year to 2 years	(2)	(1)	(3)	(14)	(46)	(60)	(4)	(27)	(31)
2 years to 3 years	(3)	(12)	(15)	–	–	–	(2)	(1)	(3)
More than 3 years	(1)	(20)	(21)	(3)	(37)	(40)	(2)	(35)	(37)
	(7)	(299)	(306)	(23)	(96)	(119)	(11)	(664)	(675)

Further, the following table shows the age analysis as at 30 June 2017 of the securities whose fair values were below 80 per cent of the book value:

	30 Jun 2017 £m		30 Jun 2016 £m		31 Dec 2016 £m	
Age analysis	Fair value	Unrealised loss	Fair value	Unrealised loss	Fair value	Unrealised loss
Less than 3 months	–	–	2	–	1	–
3 months to 6 months	–	–	19	(6)	–	–
More than 6 months	10	(6)	15	(10)	17	(11)
	10	(6)	36	(16)	18	(11)

(e) Asset-backed securities

The Group's holdings in asset-backed securities (ABS), which comprise residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralised debt obligations (CDO) funds and other asset-backed securities, at 30 June 2017 are as follows:

	2017 £m	2016 £m	
	30 Jun	30 Jun	31 Dec
Shareholder-backed operations:			
Asia insurance operations note (i)	104	151	130
US insurance operations note (ii)	3,631	4,796	4,321
UK insurance operations (2017: 35% AAA, 19% AA) note (iii)	1,045	1,445	1,464
Asset management operations note (iv)	665	963	771
	5,445	7,355	6,686
With-profits operations:			
Asia insurance operations note (i)	233	310	357
UK insurance operations (2017: 56% AAA, 13% AA) note (iii)	5,091	4,558	5,177
	5,324	4,868	5,534
Total	10,769	12,223	12,220

Notes

(i) Asia insurance operations
The Asia insurance operations' exposure to asset-backed securities is primarily held by the with-profits operations. Of the £233 million, 99 per cent (30 June 2016: 99 per cent; 31 December 2016: 99 per cent) are investment grade.

(ii) US insurance operations
US insurance operations' exposure to asset-backed securities at 30 June 2017 comprises:

	2017 £m	2016 £m	
	30 Jun	30 Jun	31 Dec
RMBS			
Sub-prime (2017: 2% AAA, 11% AA, 3% A)	150	185	180
Alt-A (2017: 3% AAA, 5% A)	151	178	177
Prime including agency (2017: 70% AA, 5% A)	515	904	675
CMBS (2017: 80% AAA, 14% AA, 1% A)	1,768	2,635	2,234
CDO funds (2017: 23% AAA, 8% AA, 43% A), including £nil exposure to sub-prime	33	55	50
Other ABS (2017: 17% AAA, 17% AA, 51% A), including £108 million exposure to sub-prime	1,014	839	1,005
Total	3,631	4,796	4,321

(iii) UK insurance operations
The majority of holdings of the shareholder-backed business are UK securities and relate to PAC's annuity business. Of the holdings of the with-profits operations, £1,473 million (30 June 2016: £1,332 million; 31 December 2016: £1,623 million) relates to exposure to the US markets with the remaining exposure being primarily to the UK market.

(iv) Asset management operations
Asset management operations' exposure to asset-backed securities is held by Prudential Capital with no sub-prime exposure. Of the £665 million, 96 per cent (30 June 2016: 95 per cent; 31 December 2016: 95 per cent) are graded AAA.

(f) Group sovereign debt and bank debt exposure

The Group exposures held by the shareholder-backed business and with-profits funds in sovereign debts and bank debt securities at 30 June 2017 are analysed as follows:

Exposure to sovereign debts

	30 Jun 2017 £m		30 Jun 2016 £m		31 Dec 2016 £m	
	Shareholder-backed business	With-profits funds	Shareholder-backed business	With-profits funds	Shareholder-backed business	With-profits funds
Italy	57	62	58	63	56	61
Spain	33	18	35	18	33	18
France	23	23	22	–	22	–
Germany*	649	317	546	348	573	329
Other Europe (principally Belgium)	82	32	84	32	83	33
Total Eurozone	844	452	745	461	767	441
United Kingdom	4,904	3,049	5,720	2,431	5,510	2,868
United States†	4,959	9,913	6,881	8,354	6,861	9,008
Other, predominantly Asia	4,174	2,221	4,081	2,073	3,979	2,079
Total	14,881	15,635	17,427	13,319	17,117	14,396

* Including bonds guaranteed by the federal government.
† The exposure to the United States sovereign debt comprises holdings of Jackson, the UK and Asia insurance operations.

C3 Assets and liabilities – classification and measurement continued

C3.2 Debt securities continued

Exposure to bank debt securities

	2017 £m							2016 £m	
	Senior debt			Subordinated debt					
	Covered	Senior	Total senior debt	Tier 1	Tier 2	Total subordinated debt	30 Jun Total	30 Jun Total	31 Dec Total
Shareholder-backed business									
Italy	–	32	32	–	–	–	32	31	32
Spain	43	16	59	–	–	–	59	159	170
France	28	52	80	10	73	83	163	224	166
Germany	76	4	80	–	87	87	167	124	124
Netherlands	–	67	67	–	6	6	73	39	50
Other Eurozone	–	23	23	–	–	–	23	32	19
Total Eurozone	147	194	341	10	166	176	517	609	561
United Kingdom	698	387	1,085	6	310	316	1,401	1,118	1,174
United States	–	2,580	2,580	3	174	177	2,757	2,651	2,684
Other, predominantly Asia	33	600	633	85	420	505	1,138	1,041	1,018
Total	878	3,761	4,639	104	1,070	1,174	5,813	5,419	5,437
With-profits funds									
Italy	–	65	65	–	–	–	65	64	62
Spain	44	41	85	–	–	–	85	219	213
France	9	200	209	–	64	64	273	274	213
Germany	112	20	132	–	35	35	167	112	114
Netherlands	–	192	192	5	7	12	204	200	202
Other Eurozone	–	30	30	–	–	–	30	30	31
Total Eurozone	165	548	713	5	106	111	824	899	835
United Kingdom	790	515	1,305	2	485	487	1,792	1,532	1,396
United States	–	1,985	1,985	16	333	349	2,334	1,978	2,229
Other, predominantly Asia	400	1,012	1,412	258	463	721	2,133	1,775	1,992
Total	1,355	4,060	5,415	281	1,387	1,668	7,083	6,184	6,452

The tables above exclude assets held to cover linked liabilities and those of the consolidated unit trusts and similar funds. In addition, the tables above exclude the proportionate share of sovereign debt holdings of the Group's joint venture and associate operations.

C3.3 Loans portfolio

(a) Overview of loans portfolio

Loans are principally accounted for at amortised cost, net of impairment except for:

- Certain mortgage loans which have been designated at fair value through profit or loss of the UK insurance operations as this loan portfolio is managed and evaluated on a fair value basis; and
- Certain policy loans of the US insurance operations which are held to back liabilities for funds withheld under a reinsurance arrangement and are also accounted for on a fair value basis.

The amounts included in the statement of financial position are analysed as follows:

	30 Jun 2017 £m				30 Jun 2016 £m				31 Dec 2016 £m			
	Mortgage loans*	Policy loans†	Other loans‡	Total	Mortgage loans*	Policy loans†	Other loans‡	Total	Mortgage loans*	Policy loans†	Other loans‡	Total
Asia												
With-profits	–	589	113	702	–	539	113	652	–	577	113	690
Non-linked shareholder-backed	188	219	198	605	156	294	176	626	179	226	208	613
US												
Non-linked shareholder-backed	5,964	3,533	–	9,497	5,109	3,395	–	8,504	6,055	3,680	–	9,735
UK												
With-profits	2,576	5	1,455	4,036	719	6	1,339	2,064	668	6	1,218	1,892
Non-linked shareholder-backed	1,711	–	37	1,748	1,548	–	4	1,552	1,642	–	38	1,680
Asset management operations	–	–	364	364	–	–	817	817	–	–	563	563
Total loans securities	10,439	4,346	2,167	16,952	7,532	4,234	2,449	14,215	8,544	4,489	2,140	15,173

* All mortgage loans are secured by properties.

† In the US £2,594 million (30 June 2016: £2,448 million; 31 December 2016: £2,672 million) policy loans are backing liabilities for funds withheld under reinsurance arrangements and are accounted for at fair value through profit or loss. All other policy loans are accounted for at amortised cost, less any impairment.

‡ Other loans held in UK with-profits funds are commercial loans and comprise mainly syndicated loans. The majority of other loans in shareholder-backed business in Asia are commercial loans held by the Malaysia operation and which are all investment graded by two local rating agencies.

(b) Additional information on US mortgage loans

In the US, mortgage loans are all commercial mortgage loans that are secured on the following property types: industrial, multi-family residential, suburban office, retail or hotel. The US insurance operations' commercial mortgage loan portfolio does not include any single-family residential mortgage loans and is therefore not exposed to the risk of defaults associated with residential sub-prime mortgage loans. The average loan size is £12.5 million (30 June 2016: £10.2 million; 31 December 2016: £12.4 million). The portfolio has a current estimated average loan to value of 59 per cent (30 June 2016 and 31 December 2016: 59 per cent).

At 30 June 2017, Jackson had no mortgage loans where the contractual terms of the agreements had been restructured (30 June 2016 and 31 December 2016: none).

(c) Additional information on UK mortgage loans

During the first half of 2017, the UK with-profits fund invested in an entity established to acquire a portfolio of buy-to-let mortgage loans. The vehicle financed the acquisition through the issue of debt instruments, largely to external parties, securitised upon the mortgages acquired. These third-party borrowings have no recourse to any other assets of the Group and the Group's exposure is limited to the amount invested by the UK with-profits fund. The securitisation entity is consolidated under IFRS with the mortgage loans and the related third-party non-recourse borrowings (see note C6.2 (b)) carried at fair value through profit or loss as they are managed and evaluated by the Group on a fair value basis.

By carrying value, 100 per cent of the £1,711 million (30 June 2016: 76 per cent of £1,548 million; 31 December 2016: 96 per cent of £1,642 million) mortgage loans held by the UK shareholder-backed business relates to lifetime (equity release) mortgage business which has an average loan to property value of 30 per cent (30 June 2016: 29 per cent; 2016: 30 per cent).

(d) Loans held by asset management operations

These relate to loans and receivables managed by Prudential Capital. These assets are generally secured but most have no external credit ratings. Internal ratings prepared by the Group's asset management operations, as part of the risk management process, are:

	2017 £m	2016 £m	
	30 Jun	30 Jun	31 Dec
Loans and receivables internal ratings:			
AA+ to AA-	21	31	29
A+ to A-	97	120	100
BBB+ to BBB-	146	442	248
BB+ to BB-	100	223	185
B and other	–	1	1
Total	364	817	563

C4 Policyholder liabilities and unallocated surplus of with-profits funds

The note provides information of policyholder liabilities and unallocated surplus of with-profits funds held on the Group's statement of financial position.

C4.1 Movement of liabilities

C4.1(a) Group overview

(i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

	Insurance operations £m			
Half year 2017 movements	**Asia*** note C4.1(b)	**US** note C4.1(c)	**UK** note C4.1(d)	**Total**
At 1 January 2017	62,784	177,626	169,304	409,714
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position†	53,716	177,626	157,654	388,996
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,667	–	11,650	14,317
– Group's share of policyholder liabilities of joint ventures and associate‡	6,401	–	–	6,401
Net flows:				
Premiums	5,699	8,148	7,756	21,603
Surrenders	(1,508)	(5,071)	(3,816)	(10,395)
Maturities/deaths	(880)	(1,119)	(3,533)	(5,532)
Net flows	3,311	1,958	407	5,676
Shareholders' transfers post tax	(27)	–	(115)	(142)
Investment-related items and other movements	4,288	7,124	5,214	16,626
Foreign exchange translation differences	(2,035)	(8,929)	130	(10,834)
As at 30 June 2017	68,321	177,779	174,940	421,040
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position†	58,348	177,779	162,853	398,980
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	3,003	–	12,087	15,090
– Group's share of policyholder liabilities of joint ventures and associate‡	6,970	–	–	6,970
Half year 2016 movements				
At 1 January 2016	45,966	138,913	152,893	337,772
Comprising:				
*– Policyholder liabilities excluding Korea life**	38,443	138,913	142,350	319,706
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,553	–	10,543	13,096
– Group's share of policyholder liabilities of joint ventures and associate‡	4,970	–	–	4,970
Net flows:				
Premiums	4,191	7,101	5,561	16,853
Surrenders	(992)	(3,437)	(3,208)	(7,637)
Maturities/deaths	(671)	(809)	(3,470)	(4,950)
Net flows	2,528	2,855	(1,117)	4,266
Shareholders' transfers post tax	(22)	–	(110)	(132)
Investment-related items and other movements	2,232	2,737	10,092	15,061
Foreign exchange translation differences	6,280	14,650	721	21,651
At 30 June 2016	56,984	159,155	162,479	378,618
Comprising:				
*– Policyholder liabilities excluding Korea life**	48,918	159,155	151,233	359,306
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,351	–	11,246	13,597
– Group's share of policyholder liabilities of joint ventures and associate‡	5,715	–	–	5,715
Average policyholder liability balances§				
Half year 2017	62,718	177,702	160,254	400,674
Half year 2016*	49,023	149,034	146,792	344,849

* The sale of the Group's Korea life business was completed in May 2017. Accordingly, no amounts are shown in the half year 2017 analysis above for Korea. The half year 2016 comparatives have been correspondingly adjusted. The amounts excluded from policyholder liabilities as presented in the balance sheet are £2,812 million at 1 January 2016 and £3,204 million at 30 June 2016.

† The policyholder liabilities of the Asia insurance operations of £58,348 million as shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by the UK insurance operations of £1,271 million to the Hong Kong with-profits business.

‡ The Group's investments in joint ventures and associates are accounted for on the equity method in the Group's statement of financial position. The Group's share of the policyholder liabilities as shown above relates to life businesses in China, India and of the Takaful business in Malaysia.

§ Averages have been based on opening and closing balances and adjusted for acquisitions, disposals and corporate transactions in the period and exclude unallocated surplus of with-profits funds.

The items above represent the amount attributable to changes in policyholder liabilities and unallocated surplus of with-profits funds as a result of each of the components listed. The policyholder liabilities shown include investment contracts without discretionary participation features (as defined in IFRS 4) and their full movement in the period. The items above are shown gross of external reinsurance.

The analysis includes the impact of premiums, claims and investment movements on policyholders' liabilities. The impact does not represent premiums, claims and investment movements as reported in the income statement. For example, the premiums shown above are after any deductions for fees/charges, and claims represent the policyholder liabilities provision released rather than the claim amount paid to the policyholder.

(ii) Analysis of movements in policyholder liabilities for shareholder-backed business

	Half year 2017 £m			
	Asia	**US**	**UK**	**Total** note (b)
At 1 January 2017	32,851	177,626	56,158	266,635
Net flows:				
Premiums	2,801	8,148	1,658	12,607
Surrenders	(1,335)	(5,071)	(1,500)	(7,906)
Maturities/deaths	(450)	(1,119)	(1,325)	(2,894)
Net flows note (a)	1,016	1,958	(1,167)	1,807
Investment-related items and other movements	1,912	7,124	1,500	10,536
Foreign exchange translation differences	(739)	(8,929)	–	(9,668)
At 30 June 2017	35,040	177,779	56,491	269,310
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	28,070	177,779	56,491	262,340
– Group's share of policyholder liabilities relating to joint ventures and associate	6,970	–	–	6,970

	Half year 2016 £m			
	Asia note (b)	**US**	**UK**	**Total**
At 1 January 2016	25,032	138,913	52,824	216,769
Net flows:				
Premiums	2,090	7,101	869	10,060
Surrenders	(829)	(3,437)	(1,311)	(5,577)
Maturities/deaths	(284)	(809)	(1,257)	(2,350)
Net flows notes (a)(b)	977	2,855	(1,699)	2,133
Investment-related items and other movements	841	2,737	4,285	7,863
Foreign exchange translation differences	3,294	14,650	1	17,945
At 30 June 2016	30,144	159,155	55,411	244,710
Comprising:				
– Policyholder liabilities excluding Korea life note (b)	24,429	159,155	55,411	238,995
– Group's share of policyholder liabilities relating to joint ventures and associate	5,715	–	–	5,715

Notes

(a) Including net flows of the Group's insurance joint ventures and associate.

(b) The sale of the Group's Korea life business was completed in May 2017. Accordingly, no amounts are shown in the half year 2017 analysis above for Korea. The half year 2016 comparatives have been correspondingly adjusted. The amounts excluded from policyholder liabilities as presented in the balance sheet are £2,812 million at 1 January 2016 and £3,204 million at 30 June 2016.

C4 Policyholder liabilities and unallocated surplus of with-profits funds continued

C4.1 Movement of liabilities continued

C4.1(b) Asia insurance operations

(i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of Asia insurance operations from the beginning of the period to 30 June is as follows:

Half year 2017 movements	With-profits business* £m	Unit-linked liabilities £m	Other business £m	Total £m
At 1 January 2017	29,933	17,507	15,344	62,784
Comprising:				
– Policyholder liabilities on the consolidated statement of financial position	27,266	14,289	12,161	53,716
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,667	–	–	2,667
– Group's share of policyholder liabilities relating to joint ventures and associate†	–	3,218	3,183	6,401
Premiums:				
New business	676	527	528	1,731
In-force	2,222	805	941	3,968
	2,898	1,332	1,469	5,699
Surrenders note (a)	(173)	(1,102)	(233)	(1,508)
Maturities/deaths	(430)	(82)	(368)	(880)
Net flows note (b)	2,295	148	868	3,311
Shareholders' transfers post tax	(27)	–	–	(27)
Investment-related items and other movements note (c)	2,376	1,551	361	4,288
Foreign exchange translation differences note (d)	(1,296)	(373)	(366)	(2,035)
At 30 June 2017	33,281	18,833	16,207	68,321
Comprising:				
*– Policyholder liabilities on the consolidated statement of financial position**	30,278	15,326	12,744	58,348
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	3,003	–	–	3,003
– Group's share of policyholder liabilities relating to joint ventures and associate†	–	3,507	3,463	6,970

Half year 2016 movements‡	**With-profits business*** £m	**Unit-linked liabilities** £m	**Other business** £m	**Total** £m
At 1 January 2016	20,934	13,779	11,253	45,966
Comprising:				
– Policyholder liabilities excluding Korea life‡	18,381	11,168	8,894	38,443
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,553	–	–	2,553
– Group's share of policyholder liabilities relating to joint ventures and associate†	–	2,611	2,359	4,970
Premiums:				
New business	706	366	335	1,407
In-force	1,395	686	703	2,784
	2,101	1,052	1,038	4,191
Surrenders note (a)	(163)	(679)	(150)	(992)
Maturities/deaths	(387)	(27)	(257)	(671)
Net flows note (b)	1,551	346	631	2,528
Shareholders' transfers post tax	(22)	–	–	(22)
Investment-related items and other movements note (c)	1,391	97	744	2,232
Foreign exchange translation differences note (d)	2,986	1,902	1,392	6,280
At 30 June 2016	26,840	16,124	14,020	56,984
Comprising:				
– Policyholder liabilities excluding Korea life‡	24,489	13,224	11,205	48,918
– Unallocated surplus of with-profits funds on the consolidated statement of financial position	2,351	–	–	2,351
– Group's share of policyholder liabilities relating to joint ventures and associate†	–	2,900	2,815	5,715
Average policyholder liability balances§				
Half year 2017	**28,772**	**18,170**	**15,776**	**62,718**
Half year 2016‡	21,435	14,951	12,637	49,023

* The policyholder liabilities of the with-profits business of £30,278 million, shown in the table above, is after deducting the intra-group reinsurance liabilities ceded by the UK insurance operations of £1,271 million to the Hong Kong with-profits business.

† The Group's investments in joint ventures and associates are accounted for on an equity method and the Group's share of the policyholder liabilities as shown above relate to the life business in China, India and of the Takaful business in Malaysia.

‡ The sale of the Group's Korea life business was completed in May 2017. Accordingly, no amounts are shown in the half year 2017 analysis above for Korea. The half year 2016 comparatives have been correspondingly adjusted. The amounts excluded from policyholder liabilities as presented in the balance sheet are £2,812 million at 1 January 2016 and £3,204 million at 30 June 2016.

§ Averages have been based on opening and closing balances and adjusted for acquisitions, disposals and corporate transactions in the period and exclude unallocated surplus of with-profits funds.

Notes

(a) The rate of surrenders for shareholder-backed business (expressed as a percentage of opening liabilities) was 4.1 per cent in the first half of 2017 (half year 2016: 3.3 per cent).

(b) Net flows increased by 31 per cent from £2,528 million in half year 2016 to £3,311 million in half year 2017 predominantly reflecting continued growth of the in-force book and increased flows from new business.

(c) Investment-related items and other movements in the first half of 2017 primarily represent gains on equities and bonds during the period.

(d) Movements in the period have been translated at the average exchange rates for the period ended 30 June 2017. The closing balance has been translated at the closing spot rates as at 30 June 2017. Differences upon retranslation are included in foreign exchange translation differences.

C4 Policyholder liabilities and unallocated surplus of with-profits funds continued

C4.1 Movement of liabilities continued

C4.1(c) US insurance operations

(i) Analysis of movements in policyholder liabilities

A reconciliation of the total policyholder liabilities of US insurance operations from the beginning of the period to 30 June is as follows:

US insurance operations

Half year 2017 movements	**Variable annuity separate account liabilities** £m	**Fixed annuity, GIC and other business** £m	**Total** £m
At 1 January 2017	120,411	57,215	177,626
Premiums	5,981	2,167	8,148
Surrenders	(3,409)	(1,662)	(5,071)
Maturities/deaths	(541)	(578)	(1,119)
Net flows note (a)	2,031	(73)	1,958
Transfers from general to separate account	1,240	(1,240)	–
Investment-related items and other movements note (b)	7,236	(112)	7,124
Foreign exchange translation differences note (c)	(6,183)	(2,746)	(8,929)
At 30 June 2017	124,735	53,044	177,779
Half year 2016 movements			
At 1 January 2016	91,022	47,891	138,913
Premiums	4,848	2,253	7,101
Surrenders	(2,168)	(1,269)	(3,437)
Maturities/deaths	(384)	(425)	(809)
Net flows note (a)	2,296	559	2,855
Transfers from general to separate account	169	(169)	–
Investment-related items and other movements	843	1,894	2,737
Foreign exchange translation differences note (c)	9,574	5,076	14,650
At 30 June 2016	103,904	55,251	159,155
Average policyholder liability balances*			
Half year 2017	122,573	55,129	177,702
Half year 2016	97,463	51,571	149,034

* Averages have been based on opening and closing balances, and adjusted for any acquisitions, disposals and corporate transactions in the period.

Notes

(a) Net flows in the first half of 2017 were £1,958 million (2016: £2,855 million) as we continue to grow the business with gross inflows of £8,148 million, principally into variable annuities, more than exceeding surrenders and maturities in the period.

(b) Positive investment-related items and other movements in variable annuity separate account liabilities of £7,236 million for the first six months in 2017 represents positive separate account return mainly following the increase in the US equity market in the period.

(c) Movements in the period have been translated at an average rate of US$1.26:£1.00 (30 June 2016: US$1.43:£1.00). The closing balance has been translated at a closing rate of US$1.30:£1.00 (30 June 2016: US$1.34:£1.00). Differences upon retranslation are included in foreign exchange translation differences.

C4.1(d) UK insurance operations

(i) Analysis of movements in policyholder liabilities and unallocated surplus of with-profits funds

A reconciliation of the total policyholder liabilities and unallocated surplus of with-profits funds of UK insurance operations from the beginning of the period to 30 June is as follows:

		Shareholder-backed funds and subsidiaries		
Half year 2017 movements	**SAIF and PAC with-profits sub-fund** £m	**Unit-linked liabilities** £m	**Annuity and other long-term business** £m	**Total** £m
At 1 January 2017	113,146	22,119	34,039	169,304
Comprising:				
– Policyholder liabilities	101,496	22,119	34,039	157,654
– Unallocated surplus of with-profits funds	11,650	–	–	11,650
Premiums	6,098	1,484	174	7,756
Surrenders	(2,316)	(1,472)	(28)	(3,816)
Maturities/deaths	(2,208)	(323)	(1,002)	(3,533)
Net flows note (a)	1,574	(311)	(856)	407
Shareholders' transfers post tax	(115)	–	–	(115)
Switches	(91)	91	–	–
Investment-related items and other movements note (b)	3,805	1,018	391	5,214
Foreign exchange translation differences	130	–	–	130
At 30 June 2017	118,449	22,917	33,574	174,940
Comprising:				
– Policyholder liabilities	106,362	22,917	33,574	162,853
– Unallocated surplus of with-profits funds	12,087	–	–	12,087
Half year 2016 movements				
At 1 January 2016	100,069	21,442	31,382	152,893
Comprising:				
– Policyholder liabilities	89,526	21,442	31,382	142,350
– Unallocated surplus of with-profits funds	10,543	–	–	10,543
Premiums	4,692	527	342	5,561
Surrenders	(1,897)	(1,285)	(26)	(3,208)
Maturities/deaths	(2,213)	(271)	(986)	(3,470)
Net flows note (a)	582	(1,029)	(670)	(1,117)
Shareholders' transfers post tax	(110)	–	–	(110)
Switches	(84)	84	–	–
Investment-related items and other movements note (b)	5,891	1,050	3,151	10,092
Foreign exchange translation differences	720	1	–	721
At 30 June 2016	107,068	21,548	33,863	162,479
Comprising:				
– Policyholder liabilities	95,822	21,548	33,863	151,233
– Unallocated surplus of with-profits funds	11,246	–	–	11,246
Average policyholder liability balances*				
Half year 2017	103,929	22,518	33,807	160,254
Half year 2016	92,674	21,495	32,623	146,792

* Averages have been based on opening and closing balances, and adjusted for any acquisitions, disposals and corporate transactions in the period, and exclude unallocated surplus of with-profits funds.

Notes

(a) Net flows have improved from a net outflow of £1,117 million in the first half of 2016 to net inflows of £407 million in the same period of 2017 due primarily to higher premium flows, up by £2,195 million to £7,756 million, following increased sales of with-profits savings and retirement products. This has been partially offset by lower premiums into our annuity business due to our withdrawal from selling new annuity business. The level of inflows/outflows for unit-linked business remains subject to annual variation as it is driven by corporate pension schemes with transfers in or out from a small number of schemes influencing the level of flows in the period.

(b) Investment-related items and other movements of £5,214 million principally comprise investment return attributable to policyholders earned in the period reflecting favourable equity market movements.

C5 Intangible assets

(a) Goodwill

	Attributable to: Shareholders	Attributable to: With-profits	2017 £m 30 Jun	2016 £m 30 Jun	2016 £m 31 Dec
Cost					
At beginning of year	1,475	153	1,628	1,648	1,648
Disposals	–	(127)	(127)	–	–
Charge for reclassification as held for sale	–	–	–	–	(56)
Additional consideration paid on previously acquired business	–	–	–	1	7
Exchange differences	–	–	–	28	29
Net book amount at end of year	1,475	26	1,501	1,677	1,628

Goodwill comprises:

	2017 £m 30 Jun	2016 £m 30 Jun	2016 £m 31 Dec
M&G – attributable to shareholders	1,153	1,153	1,153
Other – attributable to shareholders	322	335	322
Goodwill – attributable to shareholders	1,475	1,488	1,475
Venture fund investments – attributable to with-profits funds	26	189	153
	1,501	1,677	1,628

Other goodwill represents amounts arising from the purchase of entities by the Asia and US operations. These goodwill amounts relating to acquired operations are not individually material.

(b) Deferred acquisition costs and other intangible assets

	2017 £m 30 Jun	2016 £m 30 Jun	2016 £m 31 Dec
Deferred acquisition costs and other intangible assets attributable to shareholders	10,643	9,549	10,755
Deferred acquisition costs and other intangible assets attributable to with-profits funds	114	45	52
Total of deferred acquisition costs and other intangible assets	10,757	9,594	10,807

The deferred acquisition costs and other intangible assets attributable to shareholders comprise:

	2017 £m 30 Jun	2016 £m 30 Jun	2016 £m 31 Dec
Deferred acquisition costs related to insurance contracts as classified under IFRS 4	9,022	8,010	9,114
Deferred acquisition costs related to investment management contracts, including life assurance contracts classified as financial instruments and investment management contracts under IFRS 4	60	68	64
	9,082	8,078	9,178
Present value of acquired in-force policies for insurance contracts as classified under IFRS 4 (PVIF)	39	48	43
Distribution rights and other intangibles	1,522	1,423	1,534
	1,561	1,471	1,577
Total of deferred acquisition costs and other intangible assets	10,643	9,549	10,755

	2017 £m						2016 £m	
	Deferred acquisition costs							
	Asia	US	UK	Asset management	PVIF and other intangibles* note	30 Jun Total	30 Jun Total	31 Dec Total
Balance at beginning of period:	788	8,303	79	8	1,577	10,755	8,422	8,422
Additions and acquisition of subsidiaries	122	353	8	–	58	541	516	1,179
Amortisation to the income statement:†								
Operating profit	(66)	(236)	(5)	(2)	(66)	(375)	(369)	(686)
Non-operating profit	–	231	–	–	(4)	227	616	557
	(66)	(5)	(5)	(2)	(70)	(148)	247	(129)
Disposals and transfers‡	–	–	–	–	–	–	(2)	(268)
Exchange differences and other movements	(21)	(411)	–	–	(4)	(436)	801	1,475
Amortisation of DAC related to net unrealised valuation movements on Jackson's available-for-sale securities recognised within other comprehensive income†	–	(69)	–	–	–	(69)	(435)	76
Balance at end of period	823	8,171	82	6	1,561	10,643	9,549	10,755

* PVIF and other intangibles includes amounts in relation to software rights with additions of £17 million, amortisation of £16 million, foreign exchange losses of £1 million and a balance at 30 June 2017 of £66 million.

† Under the Group's application of IFRS 4, US GAAP is used for measuring the insurance assets and liabilities of its US and certain Asia operations. Under US GAAP, most of the US insurance operation's products are accounted for under Accounting Standard no. 97 of the Financial Accounting Standards Board (FAS 97) whereby deferred acquisition costs are amortised in line with the emergence of actual and expected gross profits, which are determined using an assumption for long-term investment returns for the separate account of 7.4 per cent (half year 2016: 7.4 per cent) (gross of asset management fees and other charges to policyholders, but net of external fund management fees). The amounts included in the income statement and other comprehensive income affect the pattern of profit emergence and thus the DAC amortisation attaching. DAC amortisation is allocated to the operating and non-operating components of the Group's supplementary analysis of profit and other comprehensive income by reference to the underlying items.

‡ Of the £268 million of disposals and transfers at 31 December 2016, £265 million related to the reclassification of the Korea life business as held for sale.

Note
PVIF and other intangibles comprise PVIF, distribution rights and other intangibles such as software rights. Distribution rights relate to amounts that have been paid or have become unconditionally due for payment as a result of past events in respect of bancassurance partnership arrangements in Asia. These agreements allow for bank distribution of Prudential's insurance products for a fixed period of time.

US insurance operations

The DAC amount in respect of US insurance operations comprises amounts in respect of:

	2017 £m	2016 £m	
	30 Jun	30 Jun	31 Dec
Variable annuity business	8,133	7,266	7,844
Other business	330	558	696
Cumulative shadow DAC (for unrealised gains/losses booked in other comprehensive income)*	(292)	(763)	(237)
Total DAC for US operations	8,171	7,061	8,303

* Consequent upon the positive unrealised valuation movement for half year 2017 of £531 million (30 June 2016: positive unrealised valuation movement of £2,118 million; 31 December 2016: negative unrealised valuation movement of £28 million), there is a charge of £69 million (30 June 2016: a charge of £435 million; 31 December 2016: a gain of £76 million) for altered 'shadow' DAC amortisation booked within other comprehensive income. These adjustments reflect the movement from period to period, in the changes to the pattern of reported gross profits that would have happened if the assets reflected in the statement of financial position had been sold, crystallising the unrealised gains and losses, and the proceeds reinvested at the yields currently available in the market. At 30 June 2017, the cumulative shadow DAC balance as shown in the table above was negative £292 million (30 June 2016: negative £763 million; 31 December 2016: negative £237 million).

C5 Intangible assets continued

Sensitivity of amortisation charge

The amortisation charge to the income statement is reflected in both operating profit and short-term fluctuations in investment returns. The amortisation charge to the operating profit in a reporting period comprises:

(i) A core amount that reflects a relatively stable proportion of underlying premiums or profit; and
(ii) An element of acceleration or deceleration arising from market movements differing from expectations.

In periods where the cap and floor feature of the mean reversion technique (which is used for moderating the effect of short-term volatility in investment returns) are not relevant, the technique operates to dampen the second element above. Nevertheless, extreme market movements can cause material acceleration or deceleration of amortisation in spite of this dampening effect.

Furthermore, in those periods where the cap or floor is relevant, the mean reversion technique provides no further dampening and additional volatility may result.

In the first half of 2017, the DAC amortisation charge for operating profit was determined after including a credit for decelerated amortisation of £36 million (half year 2016: £29 million; full year 2016: £93 million). The first half of 2017 amount reflects the impact of the positive separate account performance, which is higher than the assumed level for the period.

The application of the mean reversion formula has the effect of dampening the impact of equity market movements on DAC amortisation, while the mean reversion assumption lies within the corridor. At 1 July 2017, it would take an instantaneous movement in separate account values of approximately more than either negative 25 per cent or positive 41 per cent for the mean reversion assumption to move outside the corridor.

C6 Borrowings

C6.1 Core structural borrowings of shareholder-financed operations

	2017 £m	2016 £m	
	30 Jun	30 Jun	31 Dec
Holding company operations:			
Perpetual subordinated notes (Tier 1) note (i)	847	823	890
Perpetual subordinated notes (Tier 2) note (i)	2,620	2,007	2,754
Subordinated notes (Tier 2) note (i)	2,131	2,126	2,128
Subordinated debt total	5,598	4,956	5,772
Senior debt: note (ii)			
£300m 6.875% Bonds 2023	300	300	300
£250m 5.875% Bonds 2029	249	249	249
Holding company total	6,147	5,505	6,321
Prudential Capital bank loan note (iii)	275	275	275
Jackson US$250m 8.15% Surplus Notes 2027	192	186	202
Total (per condensed consolidated statement of financial position) note (iv)	6,614	5,966	6,798

Notes

(i) These debt tier classifications (including those noted for the comparative balances) are consistent with the treatment of capital for regulatory purposes under the Solvency II regime.
The Group has designated US$4.5 billion (30 June 2016: US$2.80 billion; 31 December 2016: US$4.5 billion) of its perpetual subordinated debt as a net investment hedge under IAS 39 to hedge the currency risks related to the investment in Jackson.
(ii) The senior debt ranks above subordinated debt in the event of liquidation.
(iii) The Prudential Capital bank loan of £275 million is drawn at a cost of 12 month GBP LIBOR plus 0.4 per cent and matures on 20 December 2017.
(iv) The maturity profile, currency and interest rates applicable to all other core structural borrowings of shareholder-financed operations of the Group are as detailed in note C6.1 of the Group's consolidated financial statements for the year ended 31 December 2016.

Prudential plc has debt ratings from Standard & Poor's, Moody's and Fitch. The long-term senior debt of Prudential plc is rated A+, A2 and A from Standard & Poor's, Moody's and Fitch, while short-term ratings are A-1, P-1 and F1 respectively.

The financial strength of The Prudential Assurance Company Limited is rated AA by Standard & Poor's, Aa3 by Moody's and AA by Fitch.

Jackson National Life Insurance Company's financial strength is rated AA by Standard & Poor's, A1 by Moody's, AA by Fitch and A+ by AM Best.

The financial strength of Prudential Assurance Co. Singapore (Pte) Ltd. (Prudential Singapore) is rated AA by Standard & Poor's.

All ratings on Prudential and its subsidiaries have been reaffirmed on stable outlook.

C6.2 Other borrowings

(a) Operational borrowings attributable to shareholder-financed operations

	2017 £m	2016 £m	
	30 Jun	30 Jun	31 Dec
Borrowings in respect of short-term fixed income securities programmes	1,424	2,554	1,651
Other borrowings[note]	672	244	666
Total	2,096	2,798	2,317

Note

Other borrowings mainly include senior debt issued through the Federal Home Loan Bank of Indianapolis (FHLB), secured by collateral posted with the FHLB by Jackson. In addition, other borrowings include amounts whose repayment to the lender is contingent upon future surplus emerging from certain contracts specified under the arrangement. If insufficient surplus emerges on those contracts, there is no recourse to other assets of the Group and the liability is not payable to the degree of shortfall.

(b) Borrowings attributable to with-profits operations

	2017 £m	2016 £m	
	30 Jun	30 Jun	31 Dec
Non-recourse borrowings of consolidated investment funds*	3,178	1,248	1,189
£100m 8.5% undated subordinated guaranteed bonds of Scottish Amicable Finance plc†	100	100	100
Other borrowings (predominantly obligations under finance leases)	58	79	60
Total	3,336	1,427	1,349

* In all instances the holders of the debt instruments issued by these subsidiaries and funds do not have recourse beyond the assets of those subsidiaries and funds. The increase since 31 December 2016 primarily relates to the debt instruments issued by a new consolidated securitisation entity backed by a portfolio of mortgage loans (see note C3.3(c) for further details).

† The interests of the holders of the bonds issued by Scottish Amicable Finance plc, a subsidiary of the Scottish Amicable Insurance Fund, are subordinated to the entitlements of the policyholders of that fund.

C7 Deferred tax

The statement of financial position contains the following deferred tax assets and liabilities in relation to:

	Deferred tax assets			Deferred tax liabilities		
	2017 £m	2016 £m		2017 £m	2016 £m	
	30 Jun	30 Jun	31 Dec	30 Jun	30 Jun	31 Dec
Unrealised losses or gains on investments	21	22	23	(1,774)	(1,815)	(1,534)
Balances relating to investment and insurance contracts	–	1	1	(796)	(655)	(730)
Short-term temporary differences	4,002	3,690	4,196	(3,059)	(2,893)	(3,071)
Capital allowances	16	12	16	(54)	(34)	(35)
Unused tax losses	66	46	79	–	–	–
Total	4,105	3,771	4,315	(5,683)	(5,397)	(5,370)

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

The taxation regimes applicable across the Group often apply separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a trading or capital nature may affect the recognition of deferred tax assets. For the 2017 half year results and financial position at 30 June 2017 the tax benefits on the following losses have not been recognised:

	2017		2016			
	30 Jun		30 Jun		31 Dec	
	Tax benefit £m	Losses £bn	Tax benefit £m	Losses £bn	Tax benefit £m	Losses £bn
Capital losses	90	0.4	94	0.5	89	0.4
Trading losses	48	0.2	60	0.3	41	0.2

Of the unrecognised trading losses, £33 million will expire within the next seven years, the rest have no expiry date.

Under IAS 12, 'Income Taxes', deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on the tax rates (and laws) that have been enacted or are substantively enacted at the end of the reporting period.

C8 Defined benefit pension schemes

(a) IAS 19 financial positions

The Group operates a number of pension schemes. The largest defined benefit scheme is the Prudential Staff Pension Scheme (PSPS), which is the principal scheme in the UK. The Group also operates two smaller UK defined benefit schemes in respect of Scottish Amicable (SASPS) and M&G (M&GGPS). In addition, there are two small defined benefit schemes in Taiwan which have negligible deficits.

The Group asset/liability in respect of defined benefit pension schemes is as follows:

	2017 £m					2016 £m									
	30 Jun					30 Jun					31 Dec				
	PSPS	SASPS	M&GGPS	Other schemes	Total	PSPS	SASPS	M&GGPS	Other schemes	Total	PSPS	SASPS	M&GGPS	Other schemes	Total
Underlying economic surplus (deficit)	753	(154)	85	(1)	683	1,270	(123)	115	(1)	1,261	717	(237)	84	(1)	563
Less: unrecognised surplus	(598)	–	–	–	(598)	(1,100)	–	–	–	(1,100)	(558)	–	–	–	(558)
Economic surplus (deficit) (including investment in Prudential insurance policies)	155	(154)	85	(1)	85	170	(123)	115	(1)	161	159	(237)	84	(1)	5
Attributable to:															
PAC with-profits fund	109	(62)	–	–	47	119	(49)	–	–	70	111	(95)	–	–	16
Shareholder-backed operations	46	(92)	85	(1)	38	51	(74)	115	(1)	91	48	(142)	84	(1)	(11)
Consolidation adjustment against policyholder liabilities for investment in Prudential insurance policies	–	–	(145)	–	(145)	–	–	(81)	–	(81)	–	–	(134)	–	(134)
IAS 19 pension asset (liability) on the Group statement of financial position*	155	(154)	(60)	(1)	(60)	170	(123)	34	(1)	80	159	(237)	(50)	(1)	(129)

* At 30 June 2017, the PSPS pension asset of £155 million (30 June 2016: £170 million; 31 December 2016: £159 million) and the other schemes' pension liabilities of £215 million (30 June 2016: £90 million; 31 December 2016: £288 million) are included within 'Other debtors' and 'Provisions' respectively in the consolidated statement of financial position.

C8 Defined benefit pension schemes continued

(a) IAS 19 financial positions continued

Triennial actuarial valuations

Defined benefit schemes in the UK are generally required to be subject to full actuarial valuations every three years in order to assess the appropriate level of funding for schemes in relation to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds.

The triennial valuations for the PSPS and SASPS as at 5 April 2017 and 31 March 2017 respectively are currently in progress. The next triennial valuation for the M&GGPS is at 31 December 2017.

(b) Estimated pension scheme surpluses and deficits (on an economic basis)

The underlying pension position on an economic basis reflects the assets (including investments in Prudential policies that are offset against liabilities to policyholders on consolidation in the Group financial statements) and the liabilities of the schemes. The IAS 19 basis excludes the investments in Prudential policies. In principle, on consolidation, the investments are eliminated against policyholder liabilities of UK insurance operations, so that the formal IAS 19 position for the scheme in isolation excludes these items, and the movements on them, over the reporting periods. This treatment applies to the M&GGPS investments. However, as a substantial portion of the Company's interest in the underlying surplus of PSPS is not recognised, the adjustment is not necessary for the PSPS investments.

Movements on the pension scheme deficit determined on the economic basis are as follows, with the effect of the application of IFRIC 14 being shown separately:

	Half year 2017 £m				
	Surplus (deficit) in schemes at 1 Jan 2017	(Charge) credit to income statement	Actuarial gains and losses in other comprehensive income	Contributions paid	Surplus (deficit) in schemes at 30 Jun 2017
All schemes					
Underlying position (without the effect of IFRIC 14)					
Surplus	563	(20)	117	23	683
Less: amount attributable to PAC with-profits fund	(425)	4	(57)	(8)	(486)
Shareholders' share:					
Gross of tax surplus (deficit)	138	(16)	60	15	197
Related tax	(27)	3	(12)	(3)	(39)
Net of shareholders' tax	111	(13)	48	12	158
Application of IFRIC 14 for the derecognition of PSPS surplus					
Derecognition of surplus	(558)	(7)	(32)	(1)	(598)
Less: amount attributable to PAC with-profits fund	409	4	26	–	439
Shareholders' share:					
Gross of tax	(149)	(3)	(6)	(1)	(159)
Related tax	29	1	1	–	31
Net of shareholders' tax	(120)	(2)	(5)	(1)	(128)
With the effect of IFRIC 14					
Surplus (deficit)	5	(27)	85	22	85
Less: amount attributable to PAC with-profits fund	(16)	8	(31)	(8)	(47)
Shareholders' share:					
Gross of tax (deficit) surplus	(11)	(19)	54	14	38
Related tax	2	4	(11)	(3)	(8)
Net of shareholders' tax	(9)	(15)	43	11	30

C9 Share capital, share premium and own shares

Issued shares of 5p each fully paid	30 Jun 2017 Number of ordinary shares	30 Jun 2017 Share capital £m	30 Jun 2017 Share premium £m	30 Jun 2016 Number of ordinary shares	30 Jun 2016 Share capital £m	30 Jun 2016 Share premium £m	31 Dec 2016 Number of ordinary shares	31 Dec 2016 Share capital £m	31 Dec 2016 Share premium £m
At 1 January	2,581,061,573	129	1,927	2,572,454,958	128	1,915	2,572,454,958	128	1,915
Shares issued under share-based schemes	4,791,845	–	10	6,579,190	–	6	8,606,615	1	12
At end of period	2,585,853,418	129	1,937	2,579,034,148	128	1,921	2,581,061,573	129	1,927

Amounts recorded in share capital represent the nominal value of the shares issued. The difference between the proceeds received on issue of shares, net of issue costs, and the nominal value of shares issued is credited to the share premium account.

At 30 June 2017, there were options outstanding under Save As You Earn schemes to subscribe for shares as follows:

	Number of shares to subscribe for	Share price range from	Share price range to	Exercisable by year
30 June 2017	6,280,110	466p	1,155p	2022
30 June 2016	7,128,449	288p	1,155p	2021
31 December 2016	7,068,884	466p	1,155p	2022

Transactions by Prudential plc and its subsidiaries in Prudential plc shares

The Group buys and sells Prudential plc shares (own shares) either in relation to its employee share schemes or via transactions undertaken by authorised investment funds that the Group is deemed to control. The cost of own shares of £257 million at 30 June 2017 (30 June 2016: £185 million; 31 December 2016: £226 million) is deducted from retained earnings. The Company has established trusts to facilitate the delivery of shares under employee incentive plans. At 30 June 2017, 11.5 million (30 June 2016: 11.2 million; 31 December 2016: 10.7 million) Prudential plc shares with a market value of £204 million (30 June 2016: £141 million; 31 December 2016: £175 million) were held in such trusts, all of which are for employee incentive plans. The maximum number of shares held during the period was 15.1 million which was in March 2017.

The Company purchased the following number of shares in respect of employee incentive plans:

	Number of shares purchased (in millions)	Cost £m
Half year 2017	3.3	56.0
Half year 2016	3.8	49.5
Full year 2016	4.4	57.2

The Group has consolidated a number of authorised investment funds where it is deemed to control these funds under IFRS. Some of these funds hold shares in Prudential plc. The total number of shares held by these funds at 30 June 2017 was 6.7 million (30 June 2016: 4.8 million; 31 December 2016: 6.0 million) and the cost of acquiring these shares of £75 million (30 June 2016: £39 million; 31 December 2016: £61 million) is included in the cost of own shares. The market value of these shares as at 30 June 2017 was £120 million (30 June 2016: £61 million; 31 December 2016: £97 million). During 2017, these funds made a net addition of 678,131 Prudential shares (30 June 2016: net disposal of 1,280,258; 31 December 2016: net disposal of 77,423) for a net increase of £13.8 million to book cost (30 June 2016: net decrease of £14.1 million; 31 December 2016: net increase of £7.9 million).

All share transactions were made on an exchange other than the Stock Exchange of Hong Kong.

Other than those set out above, the Group did not purchase, sell or redeem any Prudential plc listed securities during half year 2017 or 2016.

D Other notes

D1 Sale of Korea life business

On 18 May 2017, the Group announced that it had completed the sale of its life insurance subsidiary in Korea, PCA Life Insurance Co. Ltd. to Mirae Asset Life Insurance Co. Ltd., following regulatory approvals. The transaction, announced on 10 November 2016, was for a consideration of KRW170 billion (equivalent to £117 million at 17 May 2017 closing rate). The proceeds, net of £9 million of related expenses, were £108 million. This has changed by £3 million from the £105 million carrying value recorded at 31 December 2016 due to exchange rate movement.

On completion of the sale, the cumulative foreign exchange translation gain of the Korea life business of £61 million, that had arisen from 2004 (the year of the Group's conversion to IFRS) to disposal, was recycled from other comprehensive income through the profit and loss account in 2017, as required by IAS 21. This amount is included within 'Cumulative exchange gain on the sold Korea life business recycled from other comprehensive income' in the supplementary analysis of profit of the Group as shown in note B1.1. The adjustment has no net effect on shareholders' equity. The net contribution for Korea life business to the half year 2017 profit after tax, is the £61 million gain for foreign exchange translation recycling with other elements in the various line items, including a £5 million remeasurement adjustment, netting to nil.

The full year 2016 income statement recorded a charge for remeasurement of Korea Life business classified as held for sale of £(238) million. To facilitate comparisons of businesses retained by the Group, the supplementary analysis of profit shown in note B1.1 shows separately the results of the Korea life business. For full year 2016, the result for the year, including short-term fluctuations in investment returns, together with the adjustment to the carrying value, gave rise to an aggregate loss of £(227) million (half year 2016: profit of £40 million).

D2 Contingencies and related obligations

In addition to the matters set out in note B4(b) in relation to the Financial Conduct Authority review of past annuity sales, the Group is involved in various litigation and regulatory issues. These may from time to time include class actions involving Jackson. While the outcome of such matters cannot be predicted with certainty, Prudential believes that the ultimate outcome of such litigation and regulatory issues will not have a material adverse effect on the Group's financial condition, results of operations or cash flows.

There have been no material changes to the Group's contingencies and related obligations in the six month period ended 30 June 2017.

D3 Post balance sheet events

First interim ordinary dividend

The 2017 first interim ordinary dividend approved by the Board of Directors after 30 June 2017 is as described in note B7.

D4 Related party transactions

There were no transactions with related parties during the six months ended 30 June 2017 which have had a material effect on the results or financial position of the Group.

The nature of the related party transactions of the Group has not changed from those described in the Group's consolidated financial statements for the year ended 31 December 2016.

Statement of Directors' responsibilities

The Directors (who are listed below) are responsible for preparing the Half Year Financial Report in accordance with applicable law and regulations.

Accordingly, the Directors confirm that, to the best of their knowledge:

— The condensed consolidated financial statements have been prepared in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union; and
— The Half Year Financial Report includes a fair review of information required by:

(a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the six months ended 30 June 2017, and their impact on the condensed consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place during the six months ended 30 June 2017 and that have materially affected the financial position or the performance of the Group during the period and changes in the related party transactions described in the Group's consolidated financial statements for the year ended 31 December 2016.

Prudential plc Board of Directors

Chairman
Paul Manduca

Executive Directors
Michael Wells
Mark FitzPatrick CA
(appointed on 17 July 2017)
Penelope James ACA
John Foley
Nicolaos Nicandrou ACA
Anne Richards
Barry Stowe

Independent Non-executive Directors
The Hon. Philip Remnant CBE FCA
Sir Howard Davies
David Law ACA
Kaikhushru Nargolwala FCA
Anthony Nightingale CMG SBS JP
Alice Schroeder
Lord Turner FRS
Thomas Watjen
(appointed on 11 July 2017)

9 August 2017

Independent review report to Prudential plc

Conclusion

We have been engaged by the Company to review the International Financial Reporting Standards (IFRS) basis financial information in the Half Year Financial Report for the six months ended 30 June 2017 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Cash Flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the IFRS basis financial information in the Half Year Financial Report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34, '*Interim Financial Reporting*' as adopted by the European Union (EU) and the Disclosure Guidance and Transparency Rules (the DTR) of the UK's Financial Conduct Authority (the UK FCA).

We have also been engaged by the Company to review the European Embedded Value (EEV) basis supplementary financial information for the six months ended 30 June 2017 which comprises the Post-tax Operating Profit Based on Longer-Term Investment Returns, the Post-tax Summarised Consolidated Income Statement, the Movement in Shareholders' Equity, the Summary Statement of Financial Position and the related explanatory notes and Total Insurance and Investment Products New Business information.

Based on our review, nothing has come to our attention that causes us to believe that the EEV basis supplementary financial information for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with the European Embedded Value Principles dated April 2016 by the European Insurance CFO Forum (the EEV Principles), using the methodology and assumptions set out in the Notes to the EEV basis supplementary financial information.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information and supplementary information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We have read the other information contained in the Half Year Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the IFRS basis financial information or the EEV basis supplementary financial information.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The Half Year Financial Report, including the IFRS basis financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half Year Financial Report in accordance with the DTR of the UK FCA. The Directors have accepted responsibility for preparing the EEV basis supplementary financial information in accordance with the EEV Principles and for determining the methodology and assumptions used in the application of those principles.

The annual IFRS basis financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The Directors are responsible for preparing the IFRS basis financial information included in the Half Year Financial Report in accordance with IAS 34 as adopted by the EU.

The EEV basis supplementary financial information has been prepared in accordance with the EEV Principles using the methodology and assumptions set out in the Notes to the EEV basis supplementary financial information. The EEV basis supplementary financial information should be read in conjunction with the IFRS basis financial information.

Our responsibility

Our responsibility is to express to the Company a conclusion on the IFRS basis financial information in the Half Year Financial Report and the EEV basis supplementary financial information based on our reviews.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the DTR of the UK FCA and also to provide a review conclusion to the Company on the EEV basis supplementary financial information. Our review of the IFRS basis financial information has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. Our review of the EEV basis supplementary financial information has been undertaken so that we might state to the Company those matters we have been engaged to state in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Philip Smart

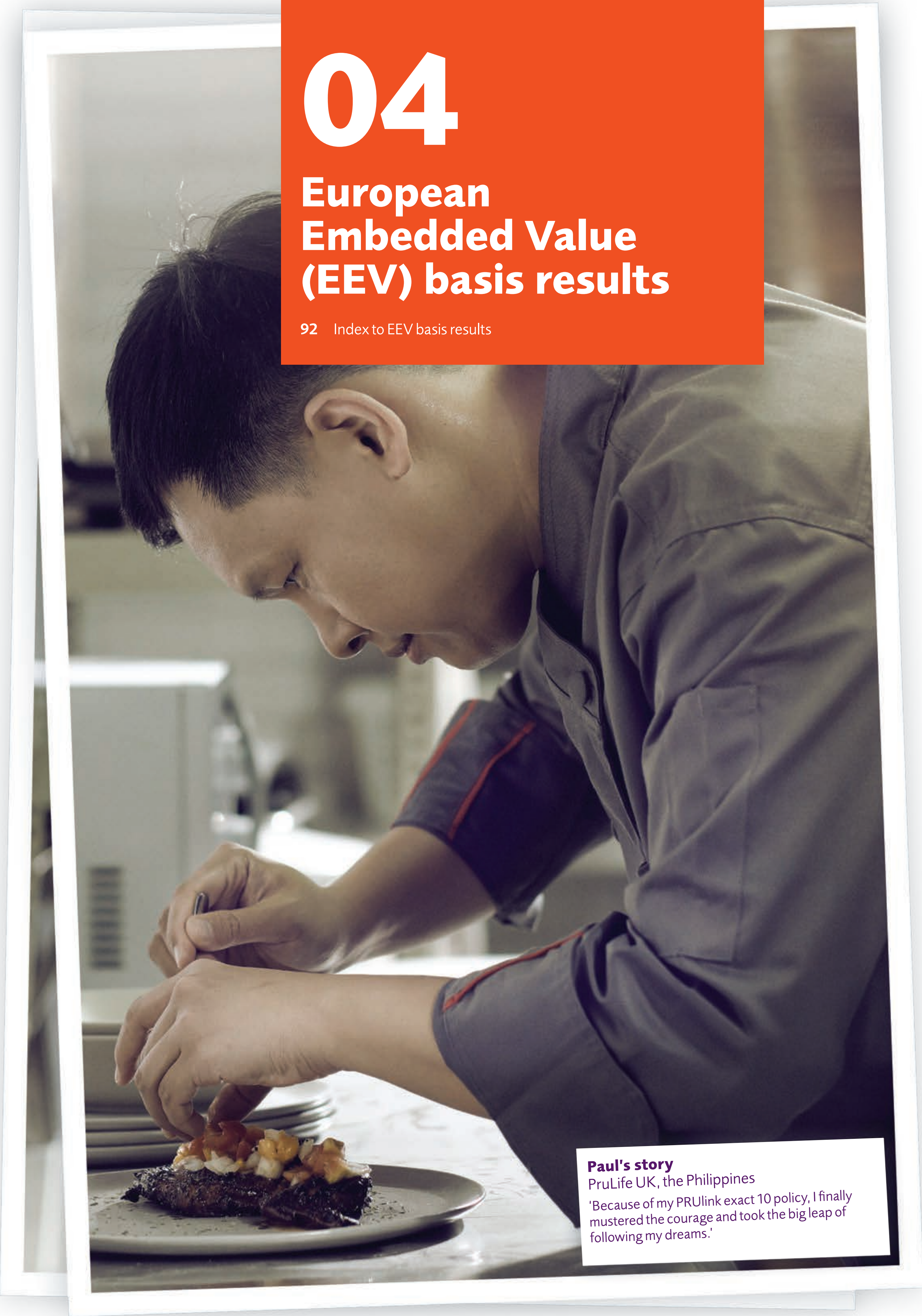
Philip Smart

For and on behalf of KPMG LLP
Chartered Accountants
London

9 August 2017

04

European Embedded Value (EEV) basis results



Paul's story
PruLife UK, the Philippines
'Because of my PRUlink exact 10 policy, I finally mustered the courage and took the big leap of following my dreams.'

Index to European Embedded Value (EEV) basis results

Description of EEV basis reporting

In broad terms, IFRS profit for long-term business reflects the aggregate of results on a traditional accounting basis. By contrast, EEV is a way of reporting the value of the life insurance business.

The EEV basis results have been prepared in accordance with the EEV Principles dated April 2016, issued by the European Insurance CFO Forum. The EEV Principles provide consistent definitions, a framework for setting actuarial assumptions, and an approach to the underlying methodology and disclosures.

Results prepared under the EEV Principles capture the discounted value of future profits expected to arise from the current book of long-term business. The results are prepared by projecting cash flows, by product, using best estimate assumptions for all relevant factors. Furthermore, in determining these expected profits, full allowance is made for the risks attached to their emergence and the associated cost of capital, taking into account recent experience in assessing likely future persistency, mortality, morbidity and expenses. Further details are explained in notes 12 and 13.

European Embedded Value (EEV) basis results

Post-tax operating profit based on longer-term investment returns

Results analysis by business area

	Note	2017 £m	2016 £m	
		Half year	Half year notes (iii)(iv)	Full year note (iii)
Asia operations				
New business	3	1,092	821	2,030
Business in force	4	549	388	1,044
Long-term business		1,641	1,209	3,074
Eastspring Investments		73	53	125
Total		1,714	1,262	3,199
US operations				
New business	3	436	311	790
Business in force	4	452	383	1,181
Long-term business		888	694	1,971
Broker-dealer and asset management		(4)	(8)	(3)
Total		884	686	1,968
UK operations				
New business	3	161	125	268
Business in force	4	304	259	375
Long-term business		465	384	643
General insurance commission		14	15	23
Total UK insurance operations		479	399	666
M&G		201	181	341
Prudential Capital		5	11	22
Total		685	591	1,029
Other income and expenditure note (i)		(386)	(302)	(679)
Solvency II and restructuring costs note (ii)		(27)	(17)	(57)
Interest received from tax settlement		–	37	37
Operating profit based on longer-term investment returns		2,870	2,257	5,497
Analysed as profit (loss) from:				
New business	3	1,689	1,257	3,088
Business in force	4	1,305	1,030	2,600
Long-term business		2,994	2,287	5,688
Asset management and general insurance commission		289	252	508
Other results		(413)	(282)	(699)
		2,870	2,257	5,497

Notes

(i) EEV basis other income and expenditure represents the post-tax IFRS basis result less the unwind of expected margins on the internal management of the assets of the covered business (as explained in note 12(a)(vii)).

(ii) Solvency II and restructuring costs comprise the net-of-tax charge recognised on an IFRS basis and the additional amount recognised on an EEV basis for the shareholders' share incurred by the PAC with-profits fund.

(iii) The comparative results have been prepared using previously reported average exchange rates for the period.

(iv) The Group completed the sale of its life business in Korea in May 2017. In order to show the results of the retained operations on a comparable basis, operating profit based on longer-term investment returns excludes the results attributable to the sold Korea life business for all periods shown, as described in note 15. For half year 2016 this has resulted in a reclassification of £6 million of operating profit attributable to the Korea life business to non-operating profit. This approach has been adopted consistently throughout this supplementary information.

European Embedded Value (EEV) basis results
Continued

Post-tax summarised consolidated income statement

	Note	2017 £m Half year	2016 £m Half year*	2016 £m Full year
Asia operations		**1,714**	1,262	3,199
US operations		**884**	686	1,968
UK operations		**685**	591	1,029
Other income and expenditure		**(386)**	(302)	(679)
Solvency II and restructuring costs		**(27)**	(17)	(57)
Interest received from tax settlement		**–**	37	37
Operating profit based on longer-term investment returns		**2,870**	2,257	5,497
Short-term fluctuations in investment returns	5	**739**	479	(507)
Effect of changes in economic assumptions	6	**(50)**	(1,318)	(60)
Mark to market value movements on core borrowings		**(262)**	(13)	(4)
Loss attaching to the sold Korea life business	15	**–**	(11)	(410)
Total non-operating profit (loss)		**427**	(863)	(981)
Profit for the period attributable to equity holders of the Company		**3,297**	1,394	4,516

Basic earnings per share

	2017 Half year	2016 Half year*	2016 Full year
Based on post-tax operating profit including longer-term investment returns (in pence)	**111.9p**	88.2p	214.7p
Based on post-tax profit attributable to equity holders of the Company (in pence)	**128.5p**	54.5p	176.4p
Average number of shares (millions)	**2,565**	2,558	2,560

* The half year 2016 comparative operating result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

Movement in shareholders' equity

	Note	2017 £m	2016 £m	
		Half year	Half year	Full year
Profit for the period attributable to equity shareholders		3,297	1,394	4,516
Items taken directly to equity:				
Exchange movements on foreign operations and net investment hedges		(1,045)	2,663	4,211
Dividends		(786)	(935)	(1,267)
Mark to market value movements on Jackson assets backing surplus and required capital		31	138	(11)
Other reserve movements		55	(165)	(367)
Net increase in shareholders' equity	8	1,552	3,095	7,082
Shareholders' equity at beginning of period		38,968	31,886	31,886
Shareholders' equity at end of period	8	40,520	34,981	38,968

	30 Jun 2017 £m			30 Jun 2016 £m			31 Dec 2016 £m		
Comprising:	Long-term business operations note 8	Asset management and other operations	Total	Long-term business operations	Asset management and other operations	Total	Long-term business operations	Asset management and other operations	Total
Asia operations	19,851	382	20,233	16,578	352	16,930	18,717	383	19,100
US operations	11,370	202	11,572	10,150	201	10,351	11,805	204	12,009
UK insurance operations	10,865	14	10,879	10,075	37	10,112	10,307	25	10,332
M&G	–	1,868	1,868	–	1,838	1,838	–	1,820	1,820
Prudential Capital	–	61	61	–	31	31	–	22	22
Other operations	–	(4,093)	(4,093)	–	(4,281)	(4,281)	–	(4,315)	(4,315)
Shareholders' equity at end of period	42,086	(1,566)	40,520	36,803	(1,822)	34,981	40,829	(1,861)	38,968
Representing:									
Net assets excluding acquired goodwill and holding company net borrowings	41,841	1,305	43,146	36,545	270	36,815	40,584	961	41,545
Acquired goodwill	245	1,230	1,475	258	1,230	1,488	245	1,230	1,475
Holding company net borrowings at market value note 7	–	(4,101)	(4,101)	–	(3,322)	(3,322)	–	(4,052)	(4,052)
	42,086	(1,566)	40,520	36,803	(1,822)	34,981	40,829	(1,861)	38,968

European Embedded Value (EEV) basis results
Continued

Summary statement of financial position

	Note	2017 £m	2016 £m	
		30 Jun	30 Jun	31 Dec
Total assets less liabilities, before deduction for insurance funds		419,810	381,242	407,928
Less insurance funds:*				
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of with-profits funds		(404,361)	(366,637)	(393,262)
Less shareholders' accrued interest in the long-term business	8	25,071	20,376	24,302
		(379,290)	(346,261)	(368,960)
Total net assets	8	40,520	34,981	38,968
Share capital		129	128	129
Share premium		1,937	1,921	1,927
IFRS basis shareholders' reserves		13,383	12,556	12,610
Total IFRS basis shareholders' equity	8	15,449	14,605	14,666
Additional EEV basis retained profit	8	25,071	20,376	24,302
Total EEV basis shareholders' equity (excluding non-controlling interests)	8	40,520	34,981	38,968

* Including liabilities in respect of insurance products classified as investment contracts under IFRS 4.

Net asset value per share

	2017	2016	
	30 Jun	30 Jun	31 Dec
Based on EEV basis shareholders' equity of £40,520 million (half year 2016: £34,981 million, full year 2016: £38,968 million) (in pence)	1,567p	1,356p	1,510p
Number of issued shares at period end (millions)	2,586	2,579	2,581
Annualised return on embedded value*	15%	14%	17%

* Annualised return on embedded value is based on EEV post-tax operating profit, as a percentage of opening EEV basis shareholders' equity. Half year profits are annualised by multiplying by two.

Notes on the EEV basis results

1 Basis of preparation

The EEV basis results have been prepared in accordance with the EEV Principles dated April 2016, issued by the European Insurance CFO Forum. Where appropriate, the EEV basis results include the effects of adoption of EU-endorsed IFRS.

The Directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles. The EEV basis results of half year 2017 and half year 2016 are unaudited. The full year 2016 results have been derived from the EEV basis results supplement to the Company's statutory accounts for 2016. The supplement included an unqualified audit report from the auditors.

A detailed description of the EEV methodology and accounting presentation is provided in note 12.

2 Results analysis by business area

The half year 2016 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The half year 2016 CER comparative results are translated at half year 2017 average exchange rates.

Annual premium equivalents (APE)note 14

		Half year 2017 £m	Half year 2016* £m		% change	
	Note		AER	CER	AER	CER
Asia operations		1,943	1,605	1,814	21%	7%
US operations		960	782	889	23%	8%
UK operations†		721	593	593	22%	22%
Group total	3	3,624	2,980	3,296	22%	10%

* The half year 2016 comparative operating result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).
† No UK bulk annuity transactions were recorded in half year 2017 or half year 2016.

2 Results analysis by business area continued

Post-tax operating profit

	Note	Half year 2017 £m	Half year 2016* £m		% change	
			AER	CER	AER	CER
Asia operations						
New business	3	1,092	821	928	33%	18%
Business in force	4	549	388	433	41%	27%
Long-term business		1,641	1,209	1,361	36%	21%
Eastspring Investments		73	53	60	38%	22%
Total		1,714	1,262	1,421	36%	21%
US operations						
New business	3	436	311	354	40%	23%
Business in force	4	452	383	435	18%	4%
Long-term business		888	694	789	28%	13%
Broker-dealer and asset management		(4)	(8)	(9)	50%	56%
Total		884	686	780	29%	13%
UK operations						
New business	3	161	125	125	29%	29%
Business in force	4	304	259	259	17%	17%
Long-term business		465	384	384	21%	21%
General insurance commission		14	15	15	(7)%	(7)%
Total UK insurance operations		479	399	399	20%	20%
M&G		201	181	181	11%	11%
Prudential Capital		5	11	11	(55)%	(55)%
Total		685	591	591	16%	16%
Other income and expenditure		(386)	(302)	(309)	(28)%	(25)%
Solvency II and restructuring costs		(27)	(17)	(17)	(59)%	(59)%
Interest received from tax settlement		–	37	37	n/a	n/a
Operating profit based on longer-term investment returns		2,870	2,257	2,503	27%	15%
Analysed as profit (loss) from:						
New business	3	1,689	1,257	1,407	34%	20%
Business in force	4	1,305	1,030	1,127	27%	16%
Total long-term business		2,994	2,287	2,534	31%	18%
Asset management and general insurance commission		289	252	258	15%	12%
Other results		(413)	(282)	(289)	(46)%	(43)%
Operating profit based on longer-term investment returns		2,870	2,257	2,503	27%	15%

* The half year 2016 comparative operating result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

Post-tax profit

	Note	Half year 2017 £m	Half year 2016* £m		% change	
			AER	CER	AER	CER
Operating profit based on longer-term investment returns		2,870	2,257	2,503	27%	15%
Short-term fluctuations in investment returns	5	739	479	504	54%	47%
Effect of changes in economic assumptions	6	(50)	(1,318)	(1,475)	96%	97%
Mark to market value movements on core borrowings		(262)	(13)	(14)	(1,915)%	(1,771)%
Loss attaching to the sold Korea life business	15	–	(11)	(12)	n/a	n/a
Total non-operating profit (loss)		427	(863)	(997)	149%	143%
Profit for the period attributable to shareholders		3,297	1,394	1,506	137%	119%

* The half year 2016 comparative operating result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

Basic earnings per share (in pence)

	Half year 2017	Half year 2016*		% change	
		AER	CER	AER	CER
Based on post-tax operating profit including longer-term investment returns	111.9p	88.2p	97.8p	27%	14%
Based on post-tax profit	128.5p	54.5p	58.9p	136%	118%

* The half year 2016 comparative operating result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

Notes on the EEV basis results
Continued

3 Analysis of new business contribution

(i) Group summary

	Half year 2017				
	Annual premium and contribution equivalents (APE) £m note 14	Present value of new business premiums (PVNBP) £m note 14	New business contribution £m note	New business margin APE %	New business margin PVNBP %
Asia operations note (ii)	1,943	10,095	1,092	56	10.8
US operations	960	9,602	436	45	4.5
UK operations	721	6,616	161	22	2.4
Total	3,624	26,313	1,689	47	6.4

	Half year 2016*				
	Annual premium and contribution equivalents (APE) £m note 14	Present value of new business premiums (PVNBP) £m note 14	New business contribution £m	New business margin APE %	New business margin PVNBP %
Asia operations note (ii)	1,605	8,679	821	51	9.5
US operations	782	7,816	311	40	4.0
UK operations	593	5,267	125	21	2.4
Total	2,980	21,762	1,257	42	5.8

	Full year 2016				
	Annual premium and contribution equivalents (APE) £m note 14	Present value of new business premiums (PVNBP) £m note 14	New business contribution £m	New business margin APE %	New business margin PVNBP %
Asia operations note (ii)	3,599	19,271	2,030	56	10.5
US operations	1,561	15,608	790	51	5.1
UK operations	1,160	10,513	268	23	2.5
Total	6,320	45,392	3,088	49	6.8

* The half year 2016 comparative result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

Note
The increase in new business contribution of £432 million from £1,257 million for half year 2016 to £1,689 million for half year 2017 comprises an increase on a CER basis of £282 million and an increase of £150 million for foreign exchange effects. The increase of £282 million on a CER basis comprises a contribution of £140 million for higher sales volumes in half year 2017 and a £142 million benefit from movements in long-term interest rates, generated by the active basis of setting economic assumptions (analysed as Asia £74 million, US £62 million and UK £6 million).

(ii) Asia operations – new business contribution by business unit

	2017 £m	2016 £m		
	Half year	AER Half year*	CER Half year*	AER Full year
China	67	22	24	63
Hong Kong	706	539	612	1,363
Indonesia	88	87	100	175
Taiwan	27	9	11	31
Other	204	164	181	398
Total Asia operations	1,092	821	928	2,030

* The half year 2016 comparative result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

4 Operating profit from business in force

(i) Group summary

	Half year 2017 £m			
	Asia operations note (ii)	US operations note (iii)	UK operations note (iv)	Total note
Unwind of discount and other expected returns	499	312	232	1,043
Effect of changes in operating assumptions	6	–	–	6
Experience variances and other items	44	140	72	256
Total	549	452	304	1,305

	Half year 2016* £m			
	Asia operations note (ii)	US operations note (iii)	UK operations note (iv)	Total
Unwind of discount and other expected returns	373	209	205	787
Effect of changes in operating assumptions	2	–	–	2
Experience variances and other items	13	174	54	241
Total	388	383	259	1,030

	Full year 2016 £m			
	Asia operations note (ii)	US operations note (iii)	UK operations note (iv)	Total
Unwind of discount and other expected returns	866	583	445	1,894
Effect of changes in operating assumptions	54	170	25	249
Experience variances and other items	124	428	(95)	457
Total	1,044	1,181	375	2,600

* The half year 2016 comparative result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

Note

The movement in operating profit from business in force of £275 million from £1,030 million for half year 2016 to £1,305 million for half year 2017 comprises:

	£m
Movement in unwind of discount and other expected returns:	
Effects of changes in:	
Growth in opening value	105
Interest rates and other economic assumptions	76
Foreign exchange	75
	256
Movement in effect of changes in operating assumptions, experience variances and other items (including foreign exchange of £22 million)	19
Net movement in operating profit from business in force	275

Notes on the EEV basis results
Continued

4 Operating profit from business in force continued

(ii) Asia operations

	2017 £m	2016 £m	
	Half year	Half year*	Full year
Unwind of discount and other expected returns note (a)	499	373	866
Effect of changes in operating assumptions:			
Mortality and morbidity	–	–	33
Persistency and withdrawals	3	3	(47)
Expense	3	–	15
Other	–	(1)	53
	6	2	54
Experience variances and other items:			
Mortality and morbidity note (b)	36	27	71
Persistency and withdrawals note (c)	11	(17)	52
Expense	(13)	(8)	(23)
Other	10	11	24
	44	13	124
Total Asia operations	549	388	1,044

* The half year 2016 comparative result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

Notes

(a) The increase in unwind of discount and other expected returns of £126 million from £373 million for half year 2016 to £499 million for half year 2017 comprises a positive £45 million effect for the growth in the opening in-force value and a positive £46 million foreign exchange effect, together with a £35 million benefit from the increase in long-term interest rates across most business units since 30 June 2016 and the effect of changes in other economic assumptions (see note 13(i)).

(b) The positive mortality and morbidity experience variance in half year 2017 of £36 million (half year 2016: £27 million; full year 2016: £71 million) reflects better than expected experience in a number of business units.

(c) The positive £11 million for persistency and withdrawals experience in half year 2017 comprises positive and negative contributions from various operations, with positive persistency experience on participating and health and protection products more than offsetting negative experience on unit-linked products.

(iii) US operations

	2017 £m	2016 £m	
	Half year	Half year	Full year
Unwind of discount and other expected returns note (a)	312	209	583
Effect of changes in operating assumptions	–	–	170
Experience variances and other items:			
Spread experience variance note (b)	42	60	119
Amortisation of interest-related realised gains and losses note (c)	47	39	88
Other note (d)	51	75	221
	140	174	428
Total US operations	452	383	1,181

Notes

(a) The increase in unwind of discount and other expected returns of £103 million from £209 million for half year 2016 to £312 million for half year 2017 comprises a positive £43 million effect for the underlying growth in the in-force book and a positive £29 million foreign exchange effect, together with a £31 million benefit from the 80 basis points increase in the US 10-year treasury yield since 30 June 2016.

(b) The spread assumption for Jackson is determined on a longer-term basis, net of provision for defaults (see note 13(ii)). The spread experience variance in half year 2017 of £42 million (half year 2016: £60 million; full year 2016: £119 million) includes the positive effect of transactions previously undertaken to more closely match the overall asset and liability duration. The reduction compared to the prior period reflects the effects of declining yields in the portfolio caused by the prolonged low interest rate environment.

(c) The amortisation of interest-related gains and losses reflects the fact that when bonds that are neither impaired nor deteriorating are sold and reinvested there will be a consequent change in the investment yield. The realised gain or loss is amortised into the result over the period when the bonds would have otherwise matured to better reflect the long-term returns included in operating profits.

(d) Other experience variances of £51 million in half year 2017 (half year 2016: £75 million; full year 2016: £221 million) include the effects of positive persistency experience and other variances.

(iv) UK insurance operations

	2017 £m	2016 £m	
	Half year	Half year	Full year
Unwind of discount and other expected returns note (a)	232	205	445
Reduction in corporate tax rate note (b)	–	–	25
Other items note (c)	72	54	(95)
Total UK insurance operations	304	259	375

Notes

(a) The increase in unwind of discount and expected returns of £27 million from £205 million for half year 2016 to £232 million for half year 2017 comprises a positive £17 million effect for the underlying growth in the in-force book and a £10 million effect driven by the 20 basis points increase in the UK 15-year gilt yield since 30 June 2016.

(b) The full year 2016 credit of £25 million for the reduction in UK corporate tax rate reflected the beneficial effect of applying lower corporation tax rates (see note 13) to future life profits from in-force business in the UK.

(c) Other items comprise the following:

	2017 £m	2016 £m	
	Half year	Half year	Full year
Longevity reinsurance	(6)	(10)	(90)
Impact of specific management actions to improve solvency position	65	41	110
Provision for cost of undertaking past non-advised annuity sales review and potential redress note (d)	–	–	(145)
Other items note (e)	13	23	30
	72	54	(95)

(d) In response to the findings of the FCA's Thematic Review of Annuities Sales Practices, the UK business will review all internally vesting annuities sold without advice after 1 July 2008. Reflecting this, the UK full year 2016 result included a provision of £145 million (post-tax) for the estimated cost of the review and any appropriate customer redress, but excluded any potential for insurance recoveries. Other than to cover the small amount of costs incurred in the period, no change has been made to this provision as at 30 June 2017.

(e) The half year 2017 credit of £13 million (half year 2016: £23 million; full year 2016: £30 million) comprises experience variances for mortality, expense and other items.

5 Short-term fluctuations in investment returns

Short-term fluctuations in investment returns included in profit for the period arise as follows:

(i) Group summary

	2017 £m	2016 £m	
	Half year	Half year*	Full year
Asia operations note (ii)	544	373	(100)
US operations note (iii)	(126)	(237)	(1,102)
UK insurance operations note (iv)	215	506	869
Other operations note (v)	106	(163)	(174)
Total	739	479	(507)

* The half year 2016 comparative result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

(ii) Asia operations

The short-term fluctuations in investment returns for Asia operations comprise:

	2017 £m	2016 £m	
	Half year	Half year*	Full year
Hong Kong	371	237	(105)
Singapore	85	26	52
Other	88	110	(47)
Total Asia operations note	544	373	(100)

* The half year 2016 comparative result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

Note

For half year 2017, the credit of £544 million principally arises from unrealised gains on bonds driven by decreases in long-term interest rates across the business units (as shown in note 13(i)) and higher than assumed returns on equities backing with-profits business in Hong Kong.

5 Short-term fluctuations in investment returns continued

(iii) US operations

The short-term fluctuations in investment returns for US operations comprise:

	2017 £m	2016 £m	
	Half year	Half year	Full year
Investment return related experience on fixed income securities [note (a)]	–	(64)	(85)
Investment return related impact due to changed expectation of profits on in-force variable annuity business in future periods based on current period separate account return, net of related hedging activity and other items [note (b)]	(126)	(173)	(1,017)
Total US operations	(126)	(237)	(1,102)

Notes

(a) The net result relating to fixed income securities reflects a number of offsetting items as follows:
- the impact on portfolio yields of changes in the asset portfolio in the period;
- the excess of actual realised gains and losses over the amortisation of interest-related realised gains and losses recorded in the profit and loss account; and
- credit experience (versus the longer-term assumption).

(b) This item reflects the net impact of:
- changes in projected future fees and future benefit costs arising from the difference between the actual growth in separate account asset values of 7.9 per cent and that assumed of 2.9 per cent for the period ended 30 June 2017; and
- related hedging activity arising from realised and unrealised gains and losses on equity-related hedges and interest rate options, and other items.

(iv) UK insurance operations

The short-term fluctuations in investment returns for UK insurance operations comprise:

	2017 £m	2016 £m	
	Half year	Half year	Full year
Shareholder-backed annuity business [note (a)]	204	335	431
With-profits and other [note (b)]	11	171	438
Total UK operations	215	506	869

Notes

(a) Short-term fluctuations in investment returns for shareholder-backed annuity business includes:
- gains on surplus assets compared to the expected long-term rate of return reflecting reductions in corporate bond and gilt yields; and
- the difference between actual and expected default experience.

(b) The positive £11 million fluctuation in half year 2017 for with-profits and other business represents the impact of achieving a 4.3 per cent pre-tax return on the with-profits fund (including unallocated surplus) compared to the assumed rate of return of 2.6 per cent for the period ended 30 June 2017 (half year 2016: achieved return of 5.3 per cent compared to assumed rate of 2.3 per cent; full year 2016: achieved return of 13.6 per cent compared to assumed rate of 5.0 per cent), partially offset by the effect of a partial hedge of future shareholder transfers expected to emerge from the UK's with-profits sub-fund entered into to protect future shareholder with-profit transfers from movements in the UK equity market.

(v) Other operations

Short-term fluctuations in investment returns for other operations of positive £106 million (half year 2016: negative £(163) million; full year 2016: negative £(174) million) include unrealised value movements on financial instruments held outside of the main life operations.

6 Effect of changes in economic assumptions

The effects of changes in economic assumptions for in-force business included in the profit for the period arise as follows:

(i) Group summary

	2017 £m	2016 £m	
	Half year	Half year*	Full year
Asia operations note (ii)	55	(559)	70
US operations note (iii)	(159)	(542)	45
UK insurance operations note (iv)	54	(217)	(175)
Total	(50)	(1,318)	(60)

* The half year 2016 comparative result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

(ii) Asia operations

The effect of changes in economic assumptions for Asia operations comprises:

	2017 £m	2016 £m	
	Half year	Half year*	Full year
Hong Kong	(72)	(483)	85
Indonesia	67	89	46
Malaysia	(20)	9	(20)
Singapore	59	(20)	(60)
Taiwan	(16)	(78)	12
Other	37	(76)	7
Total Asia operations note	55	(559)	70

* The half year 2016 comparative result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

Note

The positive effect for half year 2017 of £55 million largely arises from the movements in long-term interest rates (see note 13(i)), with losses arising from lower interest rates and hence lower fund earned rates in Hong Kong, Malaysia and Taiwan, more than offset by profits arising from the beneficial impact of valuing future profits at lower discount rates in Indonesia and Singapore, together with £117 million for the net effect of various changes to the basis of setting economic assumptions (see note 12(a)(viii) and note 13(i)).

(iii) US operations

The effect of changes in economic assumptions for US operations comprises:

	2017 £m	2016 £m	
	Half year	Half year	Full year
Variable annuity business	(194)	(709)	86
Fixed annuity and other general account business	35	167	(41)
Total US operations note	(159)	(542)	45

Note

For half year 2017, the charge of £(159) million mainly reflects the decrease in the assumed separate account return and reinvestment rates for variable annuity business, following the 20 basis points decrease in the US 10-year treasury yield in the period, resulting in lower projected fee income and an increase in projected benefit costs. For fixed annuity and other general account business, the impact reflects the effect on the present value of future projected spread income of applying a lower discount rate on the opening value of the in-force book.

6 Effect of changes in economic assumptions continued

(iv) UK insurance operations

The effect of changes in economic assumptions for UK insurance operations comprises:

	2017 £m	2016 £m	
	Half year	Half year	Full year
Shareholder-backed annuity business[note (a)]	–	(24)	(113)
With-profits and other business[note (b)]	54	(193)	(62)
Total UK insurance operations	54	(217)	(175)

Notes

(a) For shareholder-backed annuity business, the overall net nil result for half year 2017 reflects the increase in the risk-free yield curve (as shown in note 13(iii)) being offset by a decrease in spreads.

(b) The credit of £54 million for half year 2017 mainly results from higher expected future fund earned rates following the increases in the risk-free yield curve and expected investment return on overseas equities (as shown in note 13(iii)).

7 Net core structural borrowings of shareholder-financed operations

	2017 £m			2016 £m					
	30 Jun			30 Jun			31 Dec		
	IFRS basis	Mark to market value adjustment	EEV basis at market value	IFRS basis	Mark to market value adjustment	EEV basis at market value	IFRS basis	Mark to market value adjustment	EEV basis at market value
Holding company (including central finance subsidiaries) cash and short-term investments	(2,657)	–	(2,657)	(2,546)	–	(2,546)	(2,626)	–	(2,626)
Central funds									
Subordinated debt	5,598	443	6,041	4,956	192	5,148	5,772	182	5,954
Senior debt	549	168	717	549	171	720	549	175	724
	6,147	611	6,758	5,505	363	5,868	6,321	357	6,678
Holding company net borrowings	3,490	611	4,101	2,959	363	3,322	3,695	357	4,052
Prudential Capital bank loan	275	–	275	275	–	275	275	–	275
Jackson Surplus Notes	192	62	254	186	63	249	202	65	267
Net core structural borrowings of shareholder-financed operations	3,957	673	4,630	3,420	426	3,846	4,172	422	4,594

8 Reconciliation of movement in shareholders' equity

	Half year 2017 £m						
	Long-term business operations						
	Asia operations note (i)	US operations	UK insurance operations	Total long-term business operations	Asset management and UK general insurance commission	Other operations note (i)	Group total
Operating profit (based on longer-term investment returns)							
Long-term business:							
New business note 3	1,092	436	161	1,689	–	–	1,689
Business in force note 4	549	452	304	1,305	–	–	1,305
	1,641	888	465	2,994	–	–	2,994
Asset management and general insurance commission	–	–	–	–	289	–	289
Other results	–	–	(6)	(6)	–	(407)	(413)
Operating profit based on longer-term investment returns	1,641	888	459	2,988	289	(407)	2,870
Non-operating items	599	(290)	269	578	68	(219)	427
Profit for the period	2,240	598	728	3,566	357	(626)	3,297
Other items taken directly to equity							
Exchange movements on foreign operations and net investment hedges	(611)	(579)	–	(1,190)	(11)	156	(1,045)
Intra-group dividends and investment in operations note (ii)	(381)	(481)	(190)	(1,052)	(272)	1,324	–
External dividends	–	–	–	–	–	(786)	(786)
Mark to market value movements on Jackson assets backing surplus and required capital	–	31	–	31	–	–	31
Other movements note (iii)	(114)	(4)	20	(98)	(1)	154	55
Net increase in shareholders' equity	1,134	(435)	558	1,257	73	222	1,552
Shareholders' equity at beginning of period	18,472	11,805	10,307	40,584	2,454	(4,070)	38,968
Shareholders' equity at end of period	19,606	11,370	10,865	41,841	2,527	(3,848)	40,520
Representing:							
Statutory IFRS basis shareholders' equity:							
Net assets (liabilities)	4,935	5,011	6,213	16,159	1,297	(3,482)	13,974
Goodwill	–	–	–	–	1,230	245	1,475
Total IFRS basis shareholders' equity	4,935	5,011	6,213	16,159	2,527	(3,237)	15,449
Additional retained profit (loss) on an EEV basis note (iv)	14,671	6,359	4,652	25,682	–	(611)	25,071
EEV basis shareholders' equity	19,606	11,370	10,865	41,841	2,527	(3,848)	40,520
Balance at beginning of period:							
Statutory IFRS basis shareholders' equity:							
Net assets (liabilities)	4,747	5,204	5,974	15,925	1,224	(3,958)	13,191
Goodwill	–	–	–	–	1,230	245	1,475
Total IFRS basis shareholders' equity	4,747	5,204	5,974	15,925	2,454	(3,713)	14,666
Additional retained profit (loss) on an EEV basis note (iv)	13,725	6,601	4,333	24,659	–	(357)	24,302
EEV basis shareholders' equity	18,472	11,805	10,307	40,584	2,454	(4,070)	38,968

Notes

(i) Other operations of £(3,848) million represents the shareholders' equity of £(4,093) million for other operations as shown in the movement in shareholders' equity and includes goodwill of £245 million (half year 2016: £258 million; full year 2016: £245 million) related to Asia long-term operations.

(ii) Intra-group dividends represent dividends that have been declared in the period and investment in operations reflect increases in share capital. The amounts included in note 10 for these items are as per the holding company cash flow at transaction rates. The difference primarily relates to intra-group loans, foreign exchange and other non-cash items.

(iii) Other movements include reserve movements in respect of the shareholders' share of actuarial gains and losses on defined benefit pension schemes, share capital subscribed, share-based payments and treasury shares and intra-group transfers between operations which have no overall effect on the Group's embedded value.

(iv) The additional retained loss on an EEV basis for Other operations primarily represents the mark to market value adjustment for holding company net borrowings of a charge of £(611) million (half year 2016: £(363) million; full year 2016: £(357) million), as shown in note 7.

9 Analysis of movement in net worth and value of in-force for long-term business

	Half year 2017 £m				
	Free surplus note 10	Required capital	Total net worth	Value of in-force business note	Total long-term business operations
Group					
Shareholders' equity at beginning of period	5,351	10,296	15,647	24,937	40,584
New business contribution	(571)	354	(217)	1,906	1,689
Existing business – transfer to net worth	1,719	(363)	1,356	(1,356)	–
Expected return on existing business note 4	66	108	174	869	1,043
Changes in operating assumptions and experience variances note 4	348	(145)	203	59	262
Solvency II and restructuring costs	(6)	–	(6)	–	(6)
Post-tax operating profit	1,556	(46)	1,510	1,478	2,988
Sale of Korea life business note 15	76	(76)	–	–	–
Other non-operating items	(38)	20	(18)	596	578
Profit after tax from long-term business	1,594	(102)	1,492	2,074	3,566
Exchange movements on foreign operations and net investment hedges	(144)	(139)	(283)	(907)	(1,190)
Intra-group dividends and investment in operations	(1,052)	–	(1,052)	–	(1,052)
Other movements	(67)	–	(67)	–	(67)
Shareholders' equity at end of period	5,682	10,055	15,737	26,104	41,841
Asia operations					
New business contribution	(283)	77	(206)	1,298	1,092
Existing business – transfer to net worth	673	(58)	615	(615)	–
Expected return on existing business note 4	19	29	48	451	499
Changes in operating assumptions and experience variances note 4	71	(51)	20	30	50
Post-tax operating profit	480	(3)	477	1,164	1,641
Sale of Korea life business note 15	76	(76)	–	–	–
Other non-operating items	192	40	232	367	599
Profit after tax from long-term business	748	(39)	709	1,531	2,240
US operations					
New business contribution	(246)	220	(26)	462	436
Existing business – transfer to net worth	715	(132)	583	(583)	–
Expected return on existing business note 4	29	28	57	255	312
Changes in operating assumptions and experience variances note 4	57	(4)	53	87	140
Post-tax operating profit	555	112	667	221	888
Non-operating items	(470)	(109)	(579)	289	(290)
Profit after tax from long-term business	85	3	88	510	598

	Half year 2017 £m				
	Free surplus note 10	Required capital	Total net worth	Value of in-force business note	Total long-term business operations
UK insurance operations					
New business contribution	(42)	57	15	146	161
Existing business – transfer to net worth	331	(173)	158	(158)	–
Expected return on existing business note 4	18	51	69	163	232
Changes in operating assumptions and experience variances note 4	220	(90)	130	(58)	72
Solvency II and restructuring costs	(6)	–	(6)	–	(6)
Post-tax operating profit	521	(155)	366	93	459
Non-operating items	240	89	329	(60)	269
Profit after tax from long-term business	761	(66)	695	33	728

Note

The net value of in-force business comprises the value of future margins from current in-force business less the cost of holding required capital as shown below:

	30 Jun 2017 £m				31 Dec 2016 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations	US operations	UK insurance operations	Total long-term business operations
Value of in-force business before deduction of cost of capital and time value of guarantees	16,359	8,525	3,422	28,306	15,371	8,584	3,468	27,423
Cost of capital	(503)	(275)	(613)	(1,391)	(477)	(319)	(692)	(1,488)
Cost of time value of guarantees	(51)	(760)	–	(811)	(87)	(911)	–	(998)
Net value of in-force business	15,805	7,490	2,809	26,104	14,807	7,354	2,776	24,937
Total net worth	3,801	3,880	8,056	15,737	3,665	4,451	7,531	15,647
Total embedded value note 8	19,606	11,370	10,865	41,841	18,472	11,805	10,307	40,584

10 Analysis of movement in free surplus

For EEV covered business, free surplus is the excess of the regulatory basis net assets for EEV reporting purposes (net worth) over the capital required to support the covered business. Where appropriate, adjustments are made to the net worth so that backing assets are included at fair value rather than cost so as to comply with the EEV Principles. Free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis post-tax earnings and shareholders' equity, net of goodwill. Free surplus for other operations is taken to be EEV basis post-tax earnings and shareholders' equity for central operations net of goodwill, with subordinated debt recorded as free surplus to the extent that it is classified as available capital under Solvency II.

Free surplus for insurance and asset management operations and Group total free surplus, including other operations, are shown in the tables below.

(i) Underlying free surplus generated – insurance and asset management operations

The half year 2016 comparative results are shown below on both actual exchange rates (AER) and constant exchange rates (CER) bases. The half year 2016 CER comparative results are translated at half year 2017 average exchange rates.

	Half year 2017 £m	Half year 2016* £m		% change	
		AER	CER	AER	CER
Asia operations					
Underlying free surplus generated from in-force life business	**763**	600	679	27%	12%
Investment in new business note (iii)(a)	**(283)**	(228)	(257)	(24)%	(10)%
Long-term business	**480**	372	422	29%	14%
Eastspring Investments note (iii)(b)	**73**	53	60	38%	22%
Total	**553**	425	482	30%	15%
US operations					
Underlying free surplus generated from in-force life business	**801**	701	797	14%	1%
Investment in new business note (iii)(a)	**(246)**	(209)	(238)	(18)%	(3)%
Long-term business	**555**	492	559	13%	(1)%
Broker-dealer and asset management note (iii)(b)	**(4)**	(8)	(9)	50%	56%
Total	**551**	484	550	14%	0%
UK insurance operations					
Underlying free surplus generated from in-force life business	**563**	555	555	1%	1%
Investment in new business note (iii)(a)	**(42)**	(56)	(56)	25%	25%
Long-term business	**521**	499	499	4%	4%
General insurance commission note (iii)(b)	**14**	15	15	(7)%	(7)%
Total	**535**	514	514	4%	4%
M&G note (iii)(b)	**201**	181	181	11%	11%
Prudential Capital note (iii)(b)	**5**	11	11	(55)%	(55)%
Underlying free surplus generated from insurance and asset management operations	**1,845**	1,615	1,738	14%	6%
Representing:					
Long-term business:					
Expected in-force cash flows (including expected return on net assets)	**1,785**	1,470	1,620	21%	10%
Effects of changes in operating assumptions, operating experience variances and other operating items	**342**	386	411	(11)%	(17)%
Underlying free surplus generated from in-force life business	**2,127**	1,856	2,031	15%	5%
Investment in new business note (iii)(a)	**(571)**	(493)	(551)	(16)%	(4)%
Total long-term business	**1,556**	1,363	1,480	14%	5%
Asset management and general insurance commission note (iii)(b)	**289**	252	258	15%	12%
	1,845	1,615	1,738	14%	6%

* The half year 2016 comparative operating result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

(ii) Underlying free surplus generated – total Group

	Half year 2017 £m	Half year 2016* £m		% change	
		AER	CER	AER	CER
Underlying free surplus generated from insurance and asset management operations note (iii)(b)	1,845	1,615	1,738	14%	6%
Other income and expenditure net of restructuring and Solvency II costs note (iii) (b)	(407)	(308)	(315)	(32)%	(29)%
Interest received from tax settlement	–	37	37	n/a	n/a
Group underlying free surplus generated, including other operations	1,438	1,344	1,460	7%	(2)%

* The half year 2016 comparative operating result has been adjusted to exclude the result attributable to the sold Korea life business (see note 15).

(iii) Movement in free surplus

	Half year 2017 £m				
Long-term business and asset management operations	**Long-term business** note 9	**Asset management and UK general insurance commission** note (b)	**Total insurance and asset management operations**	**Central and other operations** note (b)	**Group total**
Underlying free surplus generated	1,556	289	1,845	(407)	1,438
Sale of Korea life business note 9	76	–	76	–	76
Other non-operating items note (c)	(38)	68	30	41	71
	1,594	357	1,951	(366)	1,585
Net cash flows to parent company note (d)	(1,056)	(174)	(1,230)	1,230	–
External dividends	–	–	–	(786)	(786)
Exchange rate movements, timing differences and other items note (e)	(207)	(110)	(317)	231	(86)
Net movement in free surplus	331	73	404	309	713
Balance at beginning of period	5,351	1,224	6,575	1,639	8,214
Balance at end of period	5,682	1,297	6,979	1,948	8,927
Representing:					
Asia operations			2,347	–	2,347
US operations			1,950	–	1,950
UK operations			2,682	–	2,682
Other operations note (b)			–	1,948	1,948
			6,979	1,948	8,927
Balance at beginning of period:					
Asia operations			2,142	–	2,142
US operations			2,418	–	2,418
UK operations			2,015	–	2,015
Other operations note (b)			–	1,639	1,639
			6,575	1,639	8,214

10 Analysis of movement in free surplus continued

Long-term business and asset management operations	Half year 2016 £m				
	Long-term business	Asset management and UK general insurance commission note (b)	Total insurance and asset management operations	Central and other operations note (b)	Group total
Underlying free surplus generated	1,363	252	1,615	(271)	1,344
Results of the sold Korea life business	11	–	11	–	11
Other non-operating items note (c)	(829)	(61)	(890)	(129)	(1,019)
	545	191	736	(400)	336
Net cash flows to parent company note (d)	(830)	(288)	(1,118)	1,118	–
External dividends	–	–	–	(935)	(935)
Exchange rate movements, timing differences and other items note (e)	650	202	852	205	1,057
Net movement in free surplus	365	105	470	(12)	458
Balance at beginning of period	4,169	1,124	5,293	879	6,172
Balance at end of period	4,534	1,229	5,763	867	6,630

Long-term business and asset management operations	Full year 2016 £m				
	Long-term business	Asset management and UK general insurance commission note (b)	Total insurance and asset management operations	Central and other operations note (b)	Group total
Underlying free surplus generated	3,080	508	3,588	(666)	2,922
Loss attaching to the sold Korea life business	(86)	–	(86)	–	(86)
Other non-operating items note (c)	(932)	(38)	(970)	(169)	(1,139)
	2,062	470	2,532	(835)	1,697
Net cash flows to parent company note (d)	(1,236)	(482)	(1,718)	1,718	–
External dividends	–	–	–	(1,267)	(1,267)
Exchange rate movements, timing differences and other items note (e)	356	112	468	1,144	1,612
Net movement in free surplus	1,182	100	1,282	760	2,042
Balance at beginning of period	4,169	1,124	5,293	879	6,172
Balance at end of period	5,351	1,224	6,575	1,639	8,214

Notes

(a) Free surplus invested in new business represents amounts set aside for required capital and acquisition costs.

(b) Free surplus for asset management operations and the UK general insurance commission is taken to be IFRS basis post-tax earnings and shareholders' equity, net of goodwill. Free surplus for other operations is taken to be EEV basis post-tax earnings and shareholders' equity net of goodwill, with subordinated debt recorded as free surplus to the extent that it is classified as available capital under Solvency II.

(c) Non-operating items are principally short-term fluctuations in investment returns and the effect of changes in economic assumptions for long-term business operations.

(d) Net cash flows to parent company for long-term business operations reflect the flows as included in the holding company cash flow at transaction rates.

(e) Exchange rate movements, timing differences and other items represent:

	Half year 2017 £m				
	Long-term business	Asset management and UK general insurance commission	Total insurance and asset management operations	Central and other operations	Group total
Exchange rate movements	(144)	(11)	(155)	(17)	(172)
Mark to market value movements on Jackson assets backing surplus and required capital note 8	31	–	31	–	31
Other items note (f)	(94)	(99)	(193)	248	55
	(207)	(110)	(317)	231	(86)

	Half year 2016 £m				
	Long-term business	Asset management and UK general insurance commission	Total insurance and asset management operations	Central and other operations	Group total
Exchange rate movements	329	55	384	50	434
Mark to market value movements on Jackson assets backing surplus and required capital	138	–	138	–	138
Other items note (f)	183	147	330	155	485
	650	202	852	205	1,057

	Full year 2016 £m				
	Long-term business	Asset management and UK general insurance commission	Total insurance and asset management operations	Central and other operations	Group total
Exchange rate movements	633	83	716	48	764
Mark to market value movements on Jackson assets backing surplus and required capital	(11)	–	(11)	–	(11)
Other items note (f)	(266)	29	(237)	1,096	859
	356	112	468	1,144	1,612

(f) Other items include the effect of intra-group loans and other intra-group transfers between operations, non-cash items, together with movements in subordinated debt for Other operations.

11 Sensitivity of results to alternative assumptions

Sensitivity analysis – economic assumptions

The tables below show the sensitivity of the embedded value as at 30 June 2017 and 31 December 2016 and the new business contribution after the effect of required capital for half year 2017 and full year 2016 to:

- 1 per cent increase in the discount rates;
- 1 per cent increase in interest rates, including all consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
- 0.5 per cent decrease in interest rates, including all consequential changes (assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
- 1 per cent rise in equity and property yields;
- 10 per cent fall in market value of equity and property assets (embedded value only);
- The statutory minimum capital level by contrast to EEV basis required capital (for embedded value only); and
- 5 basis points increase in UK long-term expected defaults.

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised economic conditions.

11 Sensitivity of results to alternative assumptions continued

New business contribution

	Half year 2017 £m				Full year 2016 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations	US operations	UK insurance operations	Total long-term business operations
New business contribution note 3	1,092	436	161	1,689	2,030	790	268	3,088
Discount rates – 1% increase	(208)	(21)	(18)	(247)	(375)	(43)	(32)	(450)
Interest rates – 1% increase	3	49	20	72	51	64	27	142
Interest rates – 0.5% decrease	(4)	(24)	(10)	(38)	(30)	(49)	(15)	(94)
Equity/property yields – 1% rise	61	52	20	133	129	91	28	248
Long-term expected defaults – 5 bps increase	–	–	(1)	(1)	–	–	(2)	(2)

Embedded value of long-term business operations

	30 Jun 2017 £m				31 Dec 2016 £m			
	Asia operations	US operations	UK insurance operations	Total long-term business operations	Asia operations	US operations	UK insurance operations	Total long-term business operations
Shareholders' equity note 8	19,606	11,370	10,865	41,841	18,472	11,805	10,307	40,584
Discount rates – 1% increase	(2,268)	(350)	(815)	(3,433)	(2,078)	(379)	(809)	(3,266)
Interest rates – 1% increase	(548)	(128)	(643)	(1,319)	(701)	(241)	(638)	(1,580)
Interest rates – 0.5% decrease	184	(54)	356	486	248	25	369	642
Equity/property yields – 1% rise	841	682	359	1,882	771	653	314	1,738
Equity/property market values – 10% fall	(416)	(127)	(447)	(990)	(361)	(11)	(399)	(771)
Statutory minimum capital	128	197	–	325	150	223	–	373
Long-term expected defaults – 5 bps increase	–	–	(136)	(136)	–	–	(138)	(138)

The sensitivities shown above are for the impact of instantaneous changes on the embedded value of long-term business operations and include the combined effect on the value of in-force business and net assets at the balance sheet dates indicated. If the change in assumptions shown in the sensitivities were to occur, then the effect shown above would be recorded within two components of the profit analysis for the following year. These are for the effect of economic assumption changes and short-term fluctuations in investment returns. In addition to the sensitivity effects shown above, the other components of the profit for the following year would be calculated by reference to the altered assumptions, for example new business contribution and unwind of discount, together with the effect of other changes such as altered corporate bond spreads. In addition for changes in interest rates, the effect shown above for Jackson would also be recorded within the fair value movements on assets backing surplus and required capital, which are taken directly to shareholders' equity.

12 Methodology and accounting presentation

(a) Methodology

Overview

The embedded value is the present value of the shareholders' interest in the earnings distributable from assets allocated to covered business after sufficient allowance has been made for the aggregate risks in that business. The shareholders' interest in the Group's long-term business comprises:

- the present value of future shareholder cash flows from in-force covered business (value of in-force business), less deductions for:
  - the cost of locked-in required capital; and
  - the time value of cost of options and guarantees;
- locked-in required capital; and
- the shareholders' net worth in excess of required capital (free surplus).

The value of future new business is excluded from the embedded value.

Notwithstanding the basis of presentation of results as explained in note 12(b)(iii), no smoothing of market or account balance values, unrealised gains or investment return is applied in determining the embedded value or profit. Separately, the analysis of profit is delineated between operating profit based on longer-term investment returns and other constituent items, as explained in note 12(b)(i).

(i) Covered business

The EEV results for the Group are prepared for 'covered business', as defined by the EEV Principles. Covered business represents the Group's long-term insurance business, including the Group's investments in joint venture and associate insurance operations, for which the value of new and in-force contracts is attributable to shareholders. The post-tax EEV basis results for the Group's covered business are then combined with the post-tax IFRS basis results of the Group's asset management and other operations. Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal asset management, as described in note 12(a)(vii).

The definition of long-term business operations comprises those contracts falling under the definition for regulatory purposes together with, for US operations, contracts that are in substance the same as guaranteed investment contracts (GICs) but do not fall within the technical definition.

Covered business comprises the Group's long-term business operations, with two exceptions:

- the closed Scottish Amicable Insurance Fund (SAIF) which is excluded from covered business. SAIF is a ring-fenced sub-fund of the Prudential Assurance Company (PAC) long-term fund, established by a Court Approved Scheme of Arrangement in October 1997. SAIF is closed to new business and the assets and liabilities of the fund are wholly attributable to the policyholders of the fund; and
- the presentational treatment of the Group's principal defined benefit pension scheme, the Prudential Staff Pension Scheme (PSPS). The partial recognition of the surplus for PSPS is recognised in 'Other' operations.

A small amount of UK group pensions business is also not modelled for EEV reporting purposes.

(ii) Valuation of in-force and new business

The embedded value results are prepared incorporating best estimate assumptions about all relevant factors including levels of future investment returns, expenses, persistency, mortality and morbidity, as described in note 13. These assumptions are used to project future cash flows. The present value of the future cash flows is then calculated using a discount rate which reflects both the time value of money and the non-diversifiable risks associated with the cash flows that are not otherwise allowed for.

New business

In determining the EEV basis value of new business, premiums are included in projected cash flows on the same basis of distinguishing annual and single premium business as set out for statutory basis reporting.

New business premiums reflect those premiums attaching to covered business, including premiums for contracts classified as investment products for IFRS basis reporting. New business premiums for regular premium products are shown on an annualised basis. Internal vesting business is classified as new business where the contracts include an open market option.

The post-tax contribution from new business represents profits determined by applying operating assumptions as at the end of the period.

For UK immediate annuity business, the new business contribution is determined by applying economic assumptions reflecting point-of-sale market conditions. This is consistent with how the business is priced as crediting rates are linked to yields on specific assets and the yield is locked in when the assets are purchased at the point of sale of the policy. For other business within the Group, end-of-period economic assumptions are used.

New business profitability is a key metric for the Group's management of the development of the business. In addition, post-tax new business margins are shown by reference to annual premium equivalents (APE) and the present value of new business premiums (PVNBP). These margins are calculated as the percentage of the value of new business profit to APE and PVNBP. APE is calculated as the aggregate of regular premiums and one-tenth of single premiums. PVNBP is calculated as equalling single premiums plus the present value of expected premiums of regular premium new business, allowing for lapses and other assumptions made in determining the EEV new business contribution.

12 Methodology and accounting presentation continued

Valuation movements on investments

With the exception of debt securities held by Jackson, investment gains and losses during the period (to the extent that changes in capital values do not directly match changes in liabilities) are included directly in the profit for the period and shareholders' equity as they arise.

The results for any covered business conceptually reflect the aggregate of the IFRS results and the movements on the additional shareholders' interest recognised on the EEV basis. Thus the start point for the calculation of the EEV results for Jackson, as for other businesses, reflects the market value movements recognised on an IFRS basis.

However, in determining the movements on the additional shareholders' interest, the basis for calculating the EEV result for Jackson acknowledges that, for debt securities backing liabilities, the aggregate EEV results reflect the fact that the value of in-force business instead incorporates the discounted value of future spread earnings. This value is not affected generally by short-term market movements on securities that, broadly speaking, are held for the longer term.

Fixed income securities backing the free surplus and required capital for Jackson are accounted for at fair value. However, consistent with the treatment applied under IFRS for Jackson securities classified as available-for-sale, movements in unrealised appreciation (depreciation) on these securities are accounted for in equity rather than in the income statement, as shown in the movement in shareholders' equity.

(iii) Cost of capital

A charge is deducted from the embedded value for the cost of locked-in required capital supporting the Group's long-term business. The cost is the difference between the nominal value of the capital and the discounted value of the projected releases of this capital, allowing for post-tax investment earnings on the capital.

The annual result is affected by the movement in this cost from year to year which comprises a charge against new business profit and generally a release in respect of the reduction in capital requirements for business in force as this runs off.

Where required capital is held within a with-profits long-term fund, the value placed on surplus assets in the fund is already discounted to reflect its release over time and no further adjustment is necessary in respect of required capital.

(iv) Financial options and guarantees

Nature of financial options and guarantees in Prudential's long-term business

Asia operations

Subject to local market circumstances and regulatory requirements, the guarantee features described below in respect of UK business broadly apply to similar types of participating contracts principally written in Hong Kong, Singapore and Malaysia. Participating products have both guaranteed and non-guaranteed elements.

There are also various non-participating long-term products with guarantees. The principal guarantees are those for whole-of-life contracts with floor levels of policyholder benefits that accrue at rates set at inception and do not vary subsequently with market conditions.

US operations (Jackson)

The principal financial options and guarantees in Jackson are associated with the fixed annuity (FA) and variable annuity (VA) lines of business.

Fixed annuities provide that, at Jackson's discretion, it may reset the interest rate credited to policyholders' accounts, subject to a guaranteed minimum. The guaranteed minimum return varies from 1.0 per cent to 5.5 per cent for all periods, depending on the particular product, jurisdiction where issued, and date of issue. For all periods shown, 87 per cent of the account values on fixed annuities are for policies with guarantees of 3 per cent or less, and the average guarantee rate is 2.6 per cent.

Fixed annuities also present a risk that policyholders will exercise their option to surrender their contracts in periods of rapidly rising interest rates, possibly requiring Jackson to liquidate assets at an inopportune time.

Jackson issues VA contracts for which it contractually guarantees to the contract holder either: a) return of no less than total deposits made to the contract adjusted for any partial withdrawals; b) total deposits made to the contract adjusted for any partial withdrawals plus a minimum return; or c) the highest contract value on a specified anniversary date adjusted for any withdrawals following the specified contract anniversary. These guarantees include benefits that are payable upon depletion of funds (Guaranteed Minimum Withdrawal Benefit (GMWB)), as death benefits (Guaranteed Minimum Death Benefits (GMDB)) or as income benefits (Guaranteed Minimum Income Benefits (GMIB)). These guarantees generally protect the policyholders' value in the event of poor equity market performance. Jackson hedges the GMWB and GMDB guarantees through the use of equity options and futures contracts, and fully reinsures the GMIB guarantees.

Jackson also issues fixed index annuities (FIA) that enable policyholders to obtain a portion of an equity-linked return while providing a guaranteed minimum return. The guaranteed minimum returns are of a similar nature to those described above for fixed annuities.

UK insurance operations

For covered business the only significant financial options and guarantees in the UK insurance operations arise in the with-profits fund.

With-profits products provide returns to policyholders through bonuses that are smoothed. There are two types of bonuses – annual and final. Annual bonuses are declared once a year and, once credited, are guaranteed in accordance with the terms of the particular product. Unlike annual bonuses, final bonuses are guaranteed only until the next bonus declaration. The PAC with-profits fund also held a provision on a Solvency II basis of £62 million at 30 June 2017 (30 June 2016: £54 million; 31 December 2016: £62 million) to honour guarantees on a small number of guaranteed annuity option products.

The Group's main exposure to guaranteed annuity options in the UK is through the non-covered business of SAIF. A provision on a Solvency II basis of £572 million was held in SAIF at 30 June 2017 (30 June 2016: £575 million; 31 December 2016: £571 million) to honour the guarantees. As described in note 12(a)(i), the assets and liabilities are wholly attributable to the policyholders of the fund. Therefore the movement in the provision has no direct impact on shareholders' funds.

Time value

The value of financial options and guarantees comprises two parts:

- the first part arises from a deterministic valuation on best estimate assumptions (the intrinsic value); and
- the second part arises from the variability of economic outcomes in the future (the time value).

Where appropriate, a full stochastic valuation has been undertaken to determine the time value of the financial options and guarantees.

The economic assumptions used for the stochastic calculations are consistent with those used for the deterministic calculations. Assumptions specific to the stochastic calculations reflect local market conditions and are based on a combination of actual market data, historic market data and an assessment of long-term economic conditions. Common principles have been adopted across the Group for the stochastic asset models, for example, separate modelling of individual asset classes but with an allowance for correlation between the various asset classes. Details of the key characteristics of each model are given in notes 13(iv), (v) and (vi).

In deriving the time value of financial options and guarantees, management actions in response to emerging investment and fund solvency conditions have been modelled. Management actions encompass, but are not confined to, investment allocation decisions, levels of reversionary and terminal bonuses and credited rates. Bonus rates are projected from current levels and varied in accordance with assumed management actions applying in the emerging investment and fund solvency conditions.

In all instances, the modelled actions are in accordance with approved local practice and therefore reflect the options actually available to management. For the PAC with-profits fund, the actions assumed are consistent with those set out in the Principles and Practices of Financial Management which explains how regular and final bonus rates within the discretionary framework are determined, subject to the general legislative requirements applicable.

(v) Level of required capital

In adopting the EEV Principles, Prudential has based required capital on its internal targets, subject to it being at least the local statutory minimum requirements.

For with-profits business written in a segregated life fund, as is the case in Asia and the UK, the capital available in the fund is sufficient to meet the required capital requirements. Following the implementation of Solvency II, which became effective on 1 January 2016, a portion of future shareholder transfers expected from the with-profits fund is recognised within net worth, together with the associated capital requirements.

For shareholder-backed business, the following capital requirements apply:

- Asia operations: the level of required capital has been set to an amount at least equal to the higher of local statutory requirements and the internal target;
- US operations: the level of required capital has been set at 250 per cent of the risk-based capital (RBC) required by the National Association of Insurance Commissioners (NAIC) at the Company Action Level (CAL); and
- UK insurance operations: the capital requirements are set at the Solvency II Solvency Capital Requirement (SCR) for shareholder-backed business as a whole.

(vi) With-profits business and the treatment of the estate

The proportion of surplus allocated to shareholders from the PAC with-profits fund has been based on the present level of 10 per cent. The value attributed to the shareholders' interest in the estate is derived by increasing final bonus rates (and related shareholder transfers) so as to exhaust the estate over the lifetime of the in-force with-profits business. In any scenarios where the total assets of the life fund are insufficient to meet policyholder claims in full, the excess cost is fully attributed to shareholders. Similar principles apply, where appropriate, for other with-profits funds of the Group's Asia operations.

12 Methodology and accounting presentation continued

(vii) Internal asset management

The in-force and new business results from long-term business include the projected value of profits or losses from asset management and service companies that support the Group's covered insurance businesses. The results of the Group's asset management operations include the current period profits from the management of both internal and external funds. EEV basis shareholders' other income and expenditure is adjusted to deduct the unwind of the expected internal asset management profit margin for the period. The deduction is on a basis consistent with that used for projecting the results for covered insurance business. Group operating profit accordingly includes the variance between actual and expected profit in respect of management of the assets for covered business.

(viii) Allowance for risk and risk discount rates

Overview

Under the EEV Principles, discount rates used to determine the present value of future cash flows are set by reference to risk-free rates plus a risk margin.

For Asia and US operations, the risk-free rates are based on 10-year local government bond yields.

For UK insurance operations, following the implementation of Solvency II on 1 January 2016, the EEV risk-free rate is based on the full term structure of interest rates; ie a yield curve, rather than a flat 15-year gilt yield, is used to determine the embedded value at the end of the reporting period.

The risk margin should reflect any non-diversifiable risk associated with the emergence of distributable earnings that is not allowed for elsewhere in the valuation. Prudential has selected a granular approach to better reflect differences in market risk inherent in each product group. The risk discount rate so derived does not reflect an overall Group market beta but instead reflects the expected volatility associated with the cash flows for each product category in the embedded value model.

Since financial options and guarantees are explicitly valued under the EEV methodology, discount rates under EEV are set excluding the effect of these product features.

The risk margin represents the aggregate of the allowance for market risk, additional allowance for credit risk where appropriate, and allowance for non-diversifiable non-market risk. No allowance is required for non-market risks where these are assumed to be fully diversifiable.

Market risk allowance

The allowance for market risk represents the beta multiplied by an equity risk premium. Except for UK shareholder-backed annuity business (as explained below), such an approach has been used for the Group's businesses.

The beta of a portfolio or product measures its relative market risk. The risk discount rates reflect the market risk inherent in each product group and hence the volatility of product cash flows. These are determined by considering how the profits from each product are affected by changes in expected returns on various asset classes. By converting this into a relative rate of return, it is possible to derive a product-specific beta.

Product level betas reflect the most recent product mix to produce appropriate betas and risk discount rates for each major product grouping.

Additional credit risk allowance

The Group's methodology is to allow appropriately for credit risk. The allowance for total credit risk is to cover:

- expected long-term defaults;
- credit risk premium (to reflect the volatility in downgrade and default levels); and
- short-term downgrades and defaults.

These allowances are initially reflected in determining best estimate returns and through the market risk allowance described above. However, for those businesses largely backed by holdings of debt securities these allowances in the projected returns and market risk allowances may not be sufficient and an additional allowance may be appropriate.

The practical application of the allowance for credit risk varies depending upon the type of business as described below:

Asia operations
For Asia operations, the allowance for credit risk incorporated in the projected rates of return and the market risk allowance are sufficient. Accordingly, no additional allowance for credit risk is required.

The projected rates of return for holdings of corporate bonds comprise the risk-free rate plus an assessment of long-term spread over the risk-free rate.

US operations (Jackson)
For Jackson business, the allowance for long-term defaults is reflected in the risk margin reserve (RMR) charge which is deducted in determining the projected spread margin between the earned rate on the investments and the policyholder crediting rate.

The risk discount rate incorporates an additional allowance for credit risk premium and short-term downgrades and defaults as shown in note 13(ii). In determining this allowance a number of factors have been considered. These factors, in particular, include:

— How much of the credit spread on debt securities represents an increased credit risk not reflected in the RMR long-term default assumptions, and how much is liquidity premium (which is the premium required by investors to compensate for the risk of longer-term investments which cannot be easily converted into cash, and converted at the fair market value). In assessing this effect, consideration has been given to a number of approaches to estimating the liquidity premium by considering recent statistical data; and
— Policyholder benefits for Jackson fixed annuity business are not fixed. It is possible in adverse economic scenarios to pass on a component of credit losses to policyholders (subject to guarantee features) through lower investment return rates credited to policyholders. Consequently, it is only necessary to allow for the balance of the credit risk in the risk discount rate.

The level of the additional allowance is assessed at each reporting period to take account of prevailing credit conditions and as the business in force alters over time. The additional allowance for variable annuity business has been set at one-fifth of the non-variable annuity business to reflect the proportion of the allocated holdings of general account debt securities.

The level of allowance differs from that for UK annuity business for investment portfolio differences and to take account of the management actions available in adverse economic scenarios to reduce crediting rates to policyholders, subject to guarantee features of the products.

UK operations
(1) Shareholder-backed annuity business

For Prudential's UK shareholder-backed annuity business, Prudential has used a market consistent embedded value (MCEV) approach to derive an implied risk discount rate which is then applied to the projected best estimate cash flows.

In the annuity MCEV calculations, as the assets are generally held to maturity to match liabilities, the future cash flows are discounted using the swap yield curve plus an allowance for liquidity premium based on the Solvency II allowance for credit risk. The Solvency II allowance is set by European Insurance and Occupational Pensions Authority (EIOPA) using a prudent assumption that all future downgrades will be replaced annually, and allowing for the credit spread floor.

For the purposes of presentation in the EEV results, the results on this basis are reconfigured. Under this approach the projected earned rate of return on the debt securities held is determined after allowing for a best estimate credit risk allowance. The remaining elements of prudence within the Solvency II allowance are incorporated into the risk margin included in the discount rate, shown in note 13(iii).

(2) With-profits fund non-profit annuity business

For UK non-profit annuity business attributable to the PAC with-profits fund, the basis for determining the aggregate allowance for credit risk is consistent with that applied for UK shareholder-backed annuity business (as described above). The allowance for credit risk for this business is taken into account in determining the projected cash flows to the with-profits fund, which are in turn discounted at the risk discount rate applicable to all of the projected cash flows of the fund.

(3) With-profits fund holdings of debt securities

The UK with-profits fund holds debt securities as part of its investment portfolio backing policyholder liabilities and unallocated surplus. The assumed earned rate for with-profit holdings of corporate bonds is defined as the risk-free rate plus an assessment of the long-term spread over risk free, net of expected long-term defaults. This approach is similar to that applied for equities and properties for which the projected earned rate is defined as the risk-free rate plus a long-term risk premium.

Allowance for non-diversifiable non-market risks
The majority of non-market and non-credit risks are considered to be diversifiable. Finance theory cannot be used to determine the appropriate component of beta for non-diversifiable non-market risks since there is no observable risk premium associated with it that is akin to the equity risk premium. Recognising this, a pragmatic approach has been applied.

A base level allowance of 50 basis points is applied to cover the non-diversifiable non-market risks associated with the Group's businesses. For the Group's Asia operations in China, Indonesia, the Philippines, Taiwan, Thailand and Vietnam, additional allowances are applied for emerging market risk ranging from 100 to 250 basis points. The level of these allowances are reviewed and updated based on an assessment of a range of pre-defined emerging market risk indicators, as well as the Group's exposure and experience in the business units. At half year 2017, the China allowance for non-market risk was reduced reflecting the growth in the size of the business, increasing management exposure and experience in the country and an improvement in our risk assessment of the market. For the Group's US business and UK business, no additional allowance is necessary.

12 Methodology and accounting presentation continued

(ix) Foreign currency translation
Foreign currency profits and losses have been translated at average exchange rates for the period. Foreign currency assets and liabilities have been translated at period-end exchange rates. The principal exchange rates are shown in note A1 of the IFRS financial statements.

(x) Taxation
In determining the post-tax profit for the period for covered business, the overall tax rate includes the impact of tax effects determined on a local regulatory basis. Tax payments and receipts included in the projected cash flows to determine the value of in-force business are calculated using rates that have been announced and substantively enacted by the end of the reporting period.

(xi) Inter-company arrangements
The EEV results for covered business incorporate annuities established in the PAC non-profit sub-fund from vesting pension policies in SAIF (which is not covered business). The EEV results also incorporate the effect of the reinsurance arrangement of non-profit immediate pension annuity liabilities of SAIF to the PAC non-profit sub-fund.

(b) Accounting presentation
(i) Analysis of post-tax profit
To the extent applicable, the presentation of the EEV post-tax profit for the period is consistent in the classification between operating and non-operating results with the basis that the Group applies for the analysis of IFRS basis results. Operating results reflect underlying results including longer-term investment returns (which are determined as described in note 12(b)(ii) below) and incorporate the following:

- new business contribution, as defined in note 12(a)(ii);
- unwind of discount on the value of in-force business and other expected returns, as described in note 12(b)(iii) below;
- the impact of routine changes of estimates relating to operating assumptions, as described in note 12(b)(iv) below; and
- operating experience variances, as described in note 12(b)(v) below.

Non-operating results comprise the recurrent items of:

- short-term fluctuations in investment returns;
- the mark to market value movements on core borrowings; and
- the effect of changes in economic assumptions.

In addition, for half year 2017, non-operating free surplus generated includes the effect of the disposal of the Korea life business. For all periods, non-operating profit includes a reclassification from operating profit of the results attributable to the sold Korea life business. For full year 2016, non-operating result also includes the effect of adjustment to the carrying value of the Korea life business following its reclassification as held for sale (see note 15 for details).

Total profit attributable to shareholders and basic earnings per share include these items, together with actual investment returns. The Group believes that operating profit, as adjusted for these items, better reflects underlying performance.

(ii) Investment returns included in operating profit
For the investment element of the assets covering the net worth of long-term insurance business, investment returns are recognised in operating results at the expected long-term rate of return. These expected returns are calculated by reference to the asset mix of the portfolio. For the purpose of calculating the longer-term investment return to be included in the operating result of the PAC with-profits fund of UK operations, where assets backing the liabilities and unallocated surplus are subject to market volatility, asset values at the beginning of the reporting period are adjusted to remove the effects of short-term market movements as explained in note 12(b)(iii) below.

For the purpose of determining the long-term returns for debt securities of US operations for fixed annuity and other general account business, a risk margin charge is included which reflects the expected long-term rate of default based on the credit quality of the portfolio. For Jackson, interest-related realised gains and losses are amortised to the operating results over the maturity period of the sold bonds and for equity-related investments, a long-term rate of return is assumed, which reflects the aggregation of end-of-period risk-free rates and equity risk premium. For US variable annuity separate account business, operating profit includes the unwind of discount on the opening value of in-force business adjusted to reflect end-of-period projected rates of return with the excess or deficit of the actual return recognised within non-operating profit, together with the related hedging activity.

For UK annuity business, rebalancing of the asset portfolio backing the liabilities to policyholders may, from time to time, take place to align it more closely with the internal benchmark of credit quality that management applies. Such rebalancing will result in a change in the projected yield on the asset portfolio and the allowance for default risk. The net effect of these changes is included in the operating result for the period.

(iii) Unwind of discount and other expected returns
The Group's methodology in determining the unwind of discount and other expected returns is by reference to:

- the value of in-force business at the beginning of the period (adjusted for the effect of current period economic and operating assumption changes); and
- required capital and surplus assets.

In applying this general approach, the unwind of discount included in operating profit for UK insurance operations is described below.

UK operations

The unwind is determined by reference to an implied single risk discount rate. Following the implementation of Solvency II, the EEV risk-free rate is based on a yield curve (as set out in note 12a(viii) above), which is used to derive a single implied discount rate which, if this rate had been used, would reproduce the same embedded value as that calculated by reference to the yield curve. The difference between the operating profit determined using the single implied discount rate and that derived using the yield curve is included within non-operating profit.

For with-profits business, the opening value of in-force is adjusted for the effect of short-term investment volatility due to market movements (ie smoothed). In the summary statement of financial position and for total profit reporting, asset values and investment returns are not smoothed. At 30 June 2017 the shareholders' interest in the smoothed surplus assets used for this purpose only were £31 million lower (30 June 2016: £21 million lower; 31 December 2016: £77 million lower) than the surplus assets carried in the statement of financial position.

(iv) Effect of changes in operating assumptions
Operating profit includes the effect of changes to non-economic assumptions on the value of in-force at the end of the period. For presentational purposes the effect of changes is delineated to show the effect on the opening value of in-force as operating assumption changes, with the experience variances subsequently being determined by reference to the end-of-period assumptions (see note 12(b)(v) below).

(v) Operating experience variances
Operating profit includes the effect of experience variances on non-economic assumptions, such as persistency, mortality and morbidity, expenses and other factors, which are calculated with reference to the end-of-period assumptions.

(vi) Effect of changes in economic assumptions
Movements in the value of in-force business at the beginning of the period caused by changes in economic assumptions, net of the related change in the time value of cost of options and guarantees, are recorded in non-operating results. For UK insurance operations, the embedded value incorporates Solvency II transitional measures, which are recalculated using management's estimate of the impact of operating and market conditions at the valuation date. The effect of changes in economic assumptions is after allowing for this recalculation.

13 Assumptions

Principal economic assumptions
The EEV basis results for the Group's operations have been determined using economic assumptions where the long-term expected rates of return on investments and risk discount rates are set by reference to period-end risk-free rates of return (defined below for each of the Group's insurance operations). Expected returns on equity and property asset classes and corporate bonds are derived by adding a risk premium, based on the Group's long-term view, to the risk-free rate. In order to reflect Prudential's most recent assessment of the growth prospects of the region compared to other developed markets and the historically strong relationship between long-term economic growth and long-term equity returns, in a number of Asia business units, equity risk premiums have been increased at half year 2017 by between 25 basis points and 75 basis points from those applied at half year and full year 2016. The related risk discount rates have also been increased by equivalent amounts. In addition, for a few Asia business units, expected long-term inflation assumptions at half year 2017 have been revised to better reflect central bank inflation targets and to align with the currency of the underlying exposures.

The total profit that emerges over the lifetime of an individual contract as calculated using the embedded value basis is the same as that calculated under the IFRS basis. Since the embedded value basis reflects discounted future cash flows, under this methodology the profit emergence is advanced, thus more closely aligning the timing of the recognition of profit with the efforts and risks of current management actions, particularly with regard to business sold during the period.

13 Assumptions continued

(i) Asia operations notes (b)(c)

The risk-free rates of return for Asia operations are defined as 10-year government bond yields at the end of the period.

	Risk discount rate %					
	New business			In-force business		
	2017	2016		2017	2016	
	30 Jun	30 Jun	31 Dec	30 Jun	30 Jun	31 Dec
China	9.3	9.4	9.6	9.3	9.4	9.6
Hong Kong notes (b)(d)	3.6	3.0	3.9	3.7	2.9	3.9
Indonesia	11.2	11.5	12.0	11.2	11.5	12.0
Malaysia note (d)	6.8	6.3	6.8	6.9	6.4	6.9
Philippines	12.2	10.5	11.6	12.2	10.5	11.6
Singapore note (d)	3.8	3.6	4.2	4.7	4.5	5.0
Taiwan	3.8	3.8	4.0	4.1	3.3	4.0
Thailand	10.0	8.7	9.4	10.0	8.7	9.4
Vietnam	13.2	13.7	13.0	13.2	13.7	13.0
Total weighted risk discount rate note (a)	5.1	4.7	5.3	5.8	5.7	6.1

	10-year government bond yield %			Expected long-term Inflation %		
	2017	2016		2017	2016	
	30 Jun	30 Jun	31 Dec	30 Jun	30 Jun	31 Dec
China	3.6	2.9	3.1	3.0	2.5	2.5
Hong Kong notes (b)(d)	2.3	1.5	2.5	2.5	2.3	2.3
Indonesia	6.9	7.6	8.1	4.5	5.0	5.0
Malaysia note (d)	3.9	3.8	4.3	2.5	2.5	2.5
Philippines	4.7	3.7	4.8	4.0	4.0	4.0
Singapore note (d)	2.1	1.9	2.5	2.0	2.0	2.0
Taiwan	1.1	0.8	1.2	1.5	1.0	1.0
Thailand	2.5	2.0	2.7	3.0	3.0	3.0
Vietnam	5.7	6.9	6.3	5.5	5.5	5.5

Notes

(a) The weighted risk discount rates for Asia operations shown above have been determined by weighting each country's risk discount rates by reference to the post-tax EEV basis new business contribution and the closing value of in-force business. The changes in the risk discount rates for individual Asia business units reflect:
– the movements in 10-year government bond yields;
– changes in product mix; and
– the effect of changes in the economic basis (see note 6(ii)).

(b) For Hong Kong the assumptions shown are for US dollar denominated business. For other business units, the assumptions are for local currency denominated business.

(c) Equity risk premiums in Asia range from 4.0 per cent to 9.4 per cent (half year 2016: from 3.5 per cent to 8.7 per cent; full year 2016: from 3.5 per cent to 8.7 per cent).

(d) The mean equity return assumptions for the most significant equity holdings of the Asia operations are:

	2017 %	2016 %	
	30 Jun	30 Jun	31 Dec
Hong Kong	6.3	5.5	6.5
Malaysia	10.4	9.8	10.2
Singapore	8.6	7.9	8.5

(ii) US operations

The risk-free rates of return for US operations are defined as 10-year treasury bond yield at the end of the period.

	2017 %	2016 %	
	30 Jun	30 Jun	31 Dec
Assumed new business spread margins:*			
Fixed annuity business:†			
January to June issues	**1.50**	1.25	1.25
July to December issues	**n/a**	n/a	1.25
Fixed index annuity business:			
January to June issues	**1.75**	1.50	1.50
July to December issues	**n/a**	n/a	1.50
Institutional business	**0.50**	0.50	0.50
Allowance for long-term defaults included in projected spread note 12(a)(viii)	**0.20**	0.21	0.21
Risk discount rate:			
Variable annuity:			
Risk discount rate	**6.7**	6.0	6.9
Additional allowance for credit risk included in risk discount rate note 12(a)(viii)	**0.2**	0.2	0.2
Non-variable annuity:			
Risk discount rate	**3.9**	3.1	4.1
Additional allowance for credit risk included in risk discount rate note 12(a)(viii)	**1.0**	1.0	1.0
Weighted average total:			
New business	**6.5**	5.7	6.8
In-force business	**6.3**	5.4	6.5
US 10-year treasury bond yield	**2.3**	1.5	2.5
Pre-tax expected long-term nominal rate of return for US equities	**6.3**	5.5	6.5
Expected long-term rate of inflation	**2.9**	2.7	3.0
Equity risk premium	**4.0**	4.0	4.0
S&P equity return volatility note (v)	**18.0**	18.0	18.0

* Including the proportion of variable annuity business invested in the general account and fixed index annuity business, the assumed spread margin grades up linearly by 25 basis points to a long-term assumption over five years.

† Including the proportion of variable annuity business invested in the general account.

13 Assumptions continued

(iii) UK insurance operations

Following the implementation of Solvency II on 1 January 2016, the risk-free rate is based on the full term structure of interest rates, ie a yield curve, which is used to determine the embedded value at the end of the reporting period. These yield curves are used to derive pre-tax expected long-term nominal rates of investment return and risk discount rates. For the purpose of determining the unwind of discount in the analysis of operating profit, these yield curves are used to derive a single implied risk discount rate, as explained in note 12(a)(viii).

This single implied risk discount rate is shown, along with the 15-year nominal rate of return based on the yield curve.

	2017 %	2016 %	
	30 Jun	30 Jun	31 Dec
Shareholder-backed annuity business:			
Risk discount rate: note (a)			
New business	4.1	4.5	3.9
In-force business	4.3	4.2	4.5
Pre-tax expected 15-year nominal rates of investment return: notes (a)(b)			
New business	2.7	3.4	3.0
In-force business	2.7	2.9	2.8
With-profits and other business:			
Risk discount rate:*			
New business	4.9	4.6	4.7
In-force business	4.9	4.6	4.9
Pre-tax expected 15-year nominal rates of investment return: note (b)			
Overseas equities	6.1 to 9.9	5.5 to 8.8	6.2 to 9.4
Property	4.5	4.3	4.5
15-year gilt yield	1.7	1.5	1.7
Corporate bonds	3.5	3.2	3.5
Expected 15-year rate of inflation	3.5	3.1	3.6
Equity risk premium	4.0	4.0	4.0

* The risk discount rates for with-profits and other business shown above represents a weighted average total of the rates applied to determine the present value of future cash flows, including a portion of future with-profits business shareholders' transfers recognised in net worth.

Notes

(a) For shareholder-backed annuity business, the movements in the pre-tax long-term nominal rates of return and risk discount rates for new and in-force businesses reflect the effect of changes in asset yields (based on average yields for new business).

(b) The table below shows the pattern of the UK risk-free Solvency II spot yield curve at the end of all periods shown:

	1 year	5 year	10 year	15 year	20 year
30 Jun 2017	0.4%	0.8%	1.2%	1.4%	1.5%
31 Dec 2016	0.4%	0.7%	1.1%	1.3%	1.3%
30 Jun 2016	0.4%	0.5%	0.9%	1.1%	1.1%

Stochastic assumptions

Details are given below of the key characteristics of the models used to determine the time value of the financial options and guarantees as referred to in note 12(a)(iv).

(iv) Asia operations

— The stochastic cost of guarantees is primarily of significance for the Hong Kong, Malaysia, Singapore and Taiwan operations.
— The principal asset classes are government and corporate bonds.
— The asset return models are similar to the models as described for UK insurance operations below.
— The volatility of equity returns ranges from 18 per cent to 35 per cent, and the volatility of government bond yields ranges from 0.9 per cent to 2.3 per cent for all periods shown.

(v) US operations (Jackson)

- Interest rates and equity returns are projected using a log-normal generator reflecting historical market data.
- Corporate bond returns are based on treasury yields plus a spread that reflects current market conditions.
- The volatility of equity returns ranges from 18 per cent to 27 per cent for all periods shown, and the standard deviation of interest rates ranges from 2.4 per cent to 2.7 per cent (half year and full year 2016: from 2.3 per cent to 2.6 per cent).

(vi) UK insurance operations

- Interest rates are projected using a stochastic interest rate model calibrated to the current market yields.
- Equity returns are assumed to follow a log-normal distribution.
- The corporate bond return is calculated based on a risk-free return plus a mean-reverting spread.
- Property returns are also modelled on a risk-free return plus a risk premium with a stochastic process reflecting total property returns.
- The standard deviation of equities and property ranges from 15 per cent to 20 per cent for all periods shown.

Operating assumptions

Best estimate assumptions

Best estimate assumptions are used for the cash flow projections, where best estimate is defined as the mean of the distribution of future possible outcomes. The assumptions are reviewed actively and changes are made when evidence exists that material changes in future experience are reasonably certain.

Assumptions required in the calculation of the value of options and guarantees, for example relating to volatilities and correlations, or dynamic algorithms linking liabilities to assets, have been set equal to the best estimates and, wherever material and practical, reflect any dynamic relationships between the assumptions and the stochastic variables.

Demographic assumptions

Persistency, mortality and morbidity assumptions are based on an analysis of recent experience, but also reflect expected future experience. Where relevant, when calculating the time value of financial options and guarantees, policyholder withdrawal rates vary in line with the emerging investment conditions according to management's expectations.

Expense assumptions

Expense levels, including those of service companies that support the Group's long-term business operations, are based on internal expense analysis investigations and are appropriately allocated to acquisition of new business and renewal of in-force business. Exceptional expenses are identified and reported separately. For mature business, it is Prudential's policy not to take credit for future cost reduction programmes until the savings have been delivered. For businesses which are currently sub-scale (China, Malaysia Takaful and Taiwan), expense overruns are reported where these are expected to be short-lived.

For Asia operations, the expenses comprise costs borne directly and recharged costs from the Asia regional head office, that are attributable to covered business. The assumed future expenses for these operations also include projections of these future recharges. Development expenses are charged as incurred.

Corporate expenditure, which is included in other income and expenditure, comprises:

- expenditure for Group head office, to the extent not allocated to the PAC with-profits funds, together with Solvency II implementation and restructuring costs, which are charged to the EEV basis results as incurred; and
- expenditure of the Asia regional head office that is not allocated to the covered business or asset management operations which is charged as incurred. These costs are primarily for corporate related activities and are included within corporate expenditure.

Tax rates

The assumed long-term effective tax rates for operations reflect the incidence of taxable profits and losses in the projected cash flows as explained in note 12(a)(x).

The local standard corporate tax rates applicable for the most significant operations for 2016 and half year 2017 are as follows:

Standard corporate tax rates	**%**
Asia operations:	
Hong Kong	16.5 per cent on 5 per cent of premium income
Indonesia	25.0
Malaysia	24.0
Singapore	17.0
US operations	35.0
UK operations	2016: 20.0; from 1 April 2017: 19.0; from 1 April 2020: 17.0

14 Total insurance and investment products new business note (i)

Group insurance operations – new business premiums and contributions

	Single premiums			Regular premiums			Annual premium and contribution equivalents (APE) note 12(a)(ii)			Present value of new business premiums (PVNBP) note 12(a)(ii)		
	2017 £m	2016 £m		2017 £m	2016 £m		2017 £m	2016 £m		2017 £m	2016 £m	
	Half year	Half year	Full year	Half year	Half year	Full year	Half year	Half year	Full year	Half year	Half year	Full year
Asia*	1,131	1,003	2,397	1,830	1,505	3,359	1,943	1,605	3,599	10,095	8,679	19,271
US	9,602	7,816	15,608	–	–	–	960	782	1,561	9,602	7,816	15,608
UK†	6,251	4,936	9,836	96	99	177	721	593	1,160	6,616	5,267	10,513
Group total	16,984	13,755	27,841	1,926	1,604	3,536	3,624	2,980	6,320	26,313	21,762	45,392
Asia insurance operations												
Cambodia	–	–	–	8	6	14	8	6	14	37	30	66
Hong Kong	368	506	1,140	877	817	1,798	914	868	1,912	5,190	5,045	10,930
Indonesia	126	84	236	131	117	255	144	125	279	558	486	1,048
Malaysia	33	52	110	125	104	233	128	109	244	623	630	1,352
Philippines	28	36	91	33	26	61	36	30	70	134	118	278
Singapore	323	174	523	163	125	299	195	142	351	1,451	1,063	2,627
Thailand	53	36	80	37	39	81	42	43	89	199	197	404
Vietnam	3	3	6	62	44	115	62	44	116	298	182	519
SE Asia operations including Hong Kong	934	891	2,186	1,436	1,278	2,856	1,529	1,367	3,075	8,490	7,751	17,224
China note (ii)	141	74	124	173	102	187	187	109	199	827	452	880
Taiwan	25	14	36	102	55	146	105	56	150	314	205	499
India note (iii)	31	24	51	119	70	170	122	73	175	464	271	668
Total Asia insurance operations	1,131	1,003	2,397	1,830	1,505	3,359	1,943	1,605	3,599	10,095	8,679	19,271
US insurance operations												
Variable annuities	6,041	4,995	10,653	–	–	–	604	500	1,065	6,041	4,995	10,653
Elite Access (variable annuity)	1,101	990	2,056	–	–	–	110	99	206	1,101	990	2,056
Fixed annuities	245	285	555	–	–	–	24	28	55	245	285	555
Fixed index annuities	158	277	508	–	–	–	16	28	51	158	277	508
Wholesale	2,057	1,269	1,836	–	–	–	206	127	184	2,057	1,269	1,836
Total US insurance operations	9,602	7,816	15,608	–	–	–	960	782	1,561	9,602	7,816	15,608
UK and Europe insurance operations												
Individual annuities	120	327	546	–	–	–	12	33	55	120	327	546
Bonds	1,742	1,956	3,834	–	–	–	174	196	384	1,742	1,957	3,835
Corporate pensions	77	60	110	67	68	121	75	74	132	286	258	479
Individual pensions	2,609	1,137	2,532	18	21	35	279	134	289	2,690	1,212	2,681
Income drawdown	1,061	808	1,649	–	–	–	106	81	165	1,061	808	1,649
Other products	642	648	1,165	11	10	21	75	75	135	717	705	1,323
Total UK and Europe insurance operations	6,251	4,936	9,836	96	99	177	721	593	1,160	6,616	5,267	10,513
Group total	16,984	13,755	27,841	1,926	1,604	3,536	3,624	2,980	6,320	26,313	21,762	45,392

* New business premiums and contributions exclude the results attributable to the sold Korea life business for all periods presented. The half year 2016 comparatives have been adjusted from those previously published accordingly.
† No UK bulk annuity transactions were recorded in half year 2017 or half year 2016.

Investment products – funds under management notes (iv)(v)(vi)

	Half year 2017 £m				
	1 Jan 2017	Market gross inflows	Redemptions	Market exchange translation and other movements	30 Jun 2017
Eastspring Investments	38,042	11,536	(9,263)	4,281	44,596
M&G	136,763	22,677	(15,498)	5,176	149,118
Group total	174,805	34,213	(24,761)	9,457	193,714

	Half year 2016 £m				
	1 Jan 2016	Market gross inflows	Redemptions	Market exchange translation and other movements	30 Jun 2016
Eastspring Investments	30,281	6,163	(6,575)	2,859	32,728
M&G	126,405	9,731	(16,697)	10,217	129,656
Group total	156,686	15,894	(23,272)	13,076	162,384

Notes

(i) The tables shown above are provided as an indicative volume measure of transactions undertaken in the reporting period that have the potential to generate profits for shareholders. The amounts shown are not, and not intended to be, reflective of premium income recorded in the IFRS income statement. A reconciliation of APE and gross earned premiums on an IFRS basis is provided in note II(g) within the EEV unaudited financial information.

The format of the tables shown above is consistent with the distinction between insurance and investment products as applied for previous financial reporting periods. With the exception of some US institutional business, products categorised as 'insurance' refer to those classified as contracts of long-term insurance business for regulatory reporting purposes, ie falling within one of the classes of insurance specified in Part II of schedule 1 to the Regulated Activities Order under PRA regulations.

The details shown above for insurance products include contributions for contracts that are classified under IFRS 4 'Insurance Contracts' as not containing significant insurance risk. These products are described as investment contracts or other financial instruments under IFRS. Contracts included in this category are primarily certain unit-linked and similar contracts written in UK insurance operations and Guaranteed Investment Contracts and similar funding agreements written in US operations.

(ii) New business in China is included at Prudential's 50 per cent interest in the China life operation.

(iii) New business in India is included at Prudential's 26 per cent interest in the India life operation.

(iv) Investment products referred to in the tables for funds under management above are unit trust, mutual funds and similar types of retail fund management arrangements. These are unrelated to insurance products that are classified as 'investment contracts' under IFRS 4, although similar IFRS recognition and measurement principles apply to the acquisition costs and fees attaching to this type of business.

(v) Investment flows for half year 2017 exclude Eastspring Money Market Funds gross inflows of £96,704 million (half year 2016: gross inflows of £62,302 million) and net inflows of £499 million (half year 2016: net inflows of £656 million).

(vi) New business and market gross inflows and redemptions have been translated at an average exchange rate for the period applicable. Funds under management at points in time are translated at the exchange rate applicable to those dates.

15 Sale of Korea life business

On 18 May 2017, the Group announced it had completed the sale of its life insurance subsidiary in Korea, PCA Life Insurance, to Mirae Asset Life Insurance for KRW 170 billion (£117 million at 17 May 2017 closing exchange rate) following regulatory approval. The proceeds, net of £9 million of related expenses, were £108 million. Upon disposal, £76 million of required capital was released and a corresponding increase in free surplus was recognised. There were no other impacts on the half year 2017 results.

In order to facilitate comparisons of the Group's retained businesses, the EEV basis operating profit excludes the contribution from the Korea life business, and reclassifies it separately within non-operating results. This approach is consistent with the presentation of operating profit for full year 2016 reported in the Group 2016 Annual Report. The half year 2016 comparative results have been similarly adjusted. For full year 2016, the non-operating loss attributable to the Korea life business also includes the adjustment to the carrying value of the business following its reclassification as held for sale.

05

Additional information

Helen's story
Prudential UK & Europe
'Thanks to my adviser, I can sleep easy at night knowing that I should be able to achieve my future plans because of the financial security my investments with Prudential should provide.'

Index to the additional financial information*

I. IFRS profit and loss information

II. Other information

* The additional financial information (set out in sections I(a) to II(g)) is not covered by the KPMG independent review opinion on page 90.

I IFRS profit and loss information

I(a) Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver

This schedule classifies the Group's pre-tax operating earnings from long-term insurance operations into the underlying drivers of those profits, using the following categories:

i **Spread income** represents the difference between net investment income (or premium income in the case of the UK annuities new business) and amounts credited to certain policyholder accounts. It excludes the operating investment returns on shareholder net assets, which has been separately disclosed as expected return on shareholder assets.
ii **Fee income** represents profits driven by net investment performance, being asset management fees that vary with the size of the underlying policyholder funds net of investment management expenses.
iii **With-profits** business represents the gross of tax shareholders' transfer from the with-profits fund for the period.
iv **Insurance margin** primarily represents profits derived from the insurance risks of mortality and morbidity.
v **Margin on revenues** primarily represents amounts deducted from premiums to cover acquisition costs and administration expenses.
vi **Acquisition costs and administration expenses** represent expenses incurred in the period attributable to shareholders. It excludes items such as restructuring costs and Solvency II costs which are not included in the segment profit for insurance as well as items that are more appropriately included in other source of earnings lines (eg investment expenses are netted against investment income as part of spread income or fee income as appropriate).
vii **DAC adjustments** comprises DAC amortisation for the period, excluding amounts related to short-term fluctuations in investment returns, net of costs deferred in respect of new business.

Analysis of pre-tax IFRS operating profit by source and margin analysis of Group long-term insurance business

The following analysis expresses certain of the Group's sources of operating profit as a margin of policyholder liabilities or other suitable driver. Details on the calculation of the Group's average policyholder liability balances are given in note (iv) at the end of this section.

	Half year 2017					
	Asia £m	US £m	UK £m	Total £m	Average liability note (iv) £m	Margin note(ii) bps
Spread income	108	401	74	583	89,314	131
Fee income	103	1,145	31	1,279	164,152	156
With-profits	30	–	142	172	132,701	26
Insurance margin	658	472	22	1,152		
Margin on revenues	1,056	–	82	1,138		
Expenses:						
Acquisition costs note (i)	(736)	(463)	(42)	(1,241)	3,624	(34)%
Administration expenses	(471)	(593)	(67)	(1,131)	259,451	(87)
DAC adjustments note (v)	66	117	3	186		
Expected return on shareholder assets	56	–	47	103		
	870	1,079	292	2,241		
Longevity reinsurance and other management actions to improve solvency	–	–	188	188		
Long-term business operating profit based on longer-term investment returns	870	1,079	480	2,429		

See notes at the end of this section.

Additional financial information
Continued

I IFRS profit and loss information continued

I(a) Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver continued

	Half year 2016 AER					
	Asia note (vi) £m	**US** £m	**UK** £m	**Total** £m	**Average liability** note (iv) £m	**Margin** note(ii) bps
Spread income	81	379	96	556	80,146	139
Fee income	82	878	29	989	129,054	153
With-profits	24	–	138	162	114,109	28
Insurance margin	472	401	25	898		
Margin on revenues	860	–	86	946		
Expenses:				–		
Acquisition costs note (i)	(573)	(412)	(42)	(1,027)	2,980	(34)%
Administration expenses	(369)	(452)	(58)	(879)	216,075	(81)
DAC adjustments note (v)	51	83	(2)	132		
Expected return on shareholder assets	39	11	61	111		
	667	888	333	1,888		
Longevity reinsurance and other management actions to improve solvency	–	–	140	140		
Long-term business operating profit based on longer-term investment returns	667	888	473	2,028		

See notes at the end of this section.

	Half year 2016 CER note (iii)					
	Asia note (vi) £m	**US** £m	**UK** note (v) £m	**Total** £m	**Average liability** note (iv) £m	**Margin** note(ii) bps
Spread income	91	426	96	613	85,708	143
Fee income	92	997	29	1,118	143,526	156
With-profits	27	–	138	165	115,945	28
Insurance margin	532	456	25	1,013		
Margin on revenues	965	–	86	1,051		
Expenses:						
Acquisition costs note (i)	(644)	(469)	(42)	(1,155)	3,296	(35)%
Administration expenses	(412)	(513)	(58)	(983)	236,974	(83)
DAC adjustments note (v)	56	95	(2)	149		
Expected return on shareholder assets	45	18	61	124		
	752	1,010	333	2,095		
Longevity reinsurance and other management actions to improve solvency	–	–	140	140		
Long-term business operating profit based on longer-term investment returns	752	1,010	473	2,235		

See notes at the end of this section.

Margin analysis of long-term insurance business – Asia

	Asia note (vi)								
	Half year 2017			Half year 2016 AER			Half year 2016 CER note (iii)		
Long-term business	Profit £m	Average liability note (iv) £m	Margin note (ii) bps	Profit £m	Average liability note (iv) £m	Margin note (ii) bps	Profit £m	Average liability note (iv) £m	Margin note (ii) bps
Spread income	108	15,776	137	81	12,637	128	91	13,886	131
Fee income	103	18,170	113	82	14,951	110	92	16,240	113
With-profits	30	28,772	21	24	21,435	22	27	23,271	23
Insurance margin	658			472			532		
Margin on revenues	1,056			860			965		
Expenses:									
Acquisition costs note (i)	(736)	1,943	(38)%	(573)	1,605	(36)%	(644)	1,814	(36)%
Administration expenses	(471)	33,946	(278)	(369)	27,588	(268)	(412)	30,126	(274)
DAC adjustments note (v)	66			51			56		
Expected return on shareholder assets	56			39			45		
Operating profit based on longer-term investment returns	870			667			752		

See notes at the end of this section.

Analysis of Asia operating profit drivers

— Spread income has increased on a constant exchange rate basis by 19 per cent (AER: 33 per cent) to £108 million in half year 2017, predominantly reflecting the growth of the Asia non-linked policyholder liabilities.
— Fee income has increased by 12 per cent at constant exchange rates (AER: 26 per cent) to £103 million in half year 2017, broadly in line with the increase in movement in average unit-linked liabilities.
— On a constant exchange rate basis, insurance margin has increased by 24 per cent to £658 million in half year 2017 (AER: 39 per cent), primarily reflecting the continued growth of the in-force book, which contains a relatively high proportion of risk-based products. Insurance margin includes non-recurring items of £66 million (half year 2016: £42 million at AER and £46 million at CER).
— Margin on revenue has increased by £91 million on a constant exchange rate basis from £965 million in half year 2016 to £1,056 million in half year 2017, primarily reflecting growth of the in-force book and higher regular premium income recognised in the period.
— Acquisition costs have increased by 14 per cent at constant exchange rates (AER: 28 per cent) to £736 million, compared to the 7 per cent increase in APE sales, resulting in an increase in the acquisition costs ratio. The analysis above uses shareholder acquisition costs as a proportion of total APE. If with-profits sales were excluded from the denominator the acquisition cost ratio would become 65 per cent (half year 2016: 72 per cent at CER), the decrease being the result of product and country mix.
— Administration expenses have increased by 14 per cent at a constant exchange rate basis (AER: 28 per cent increase) in half year 2017 as the business continues to expand. On a constant exchange rate basis, the administration expense ratio has increased from 274 basis points in half year 2016 to 278 basis points in half year 2017, the result of changes in country and product mix.

I IFRS profit and loss information continued

I(a) Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver continued

Margin analysis of long-term insurance business – US

	US								
	Half year 2017			Half year 2016 AER			Half year 2016 CER note (iii)		
Long-term business	Profit £m	Average liability note (iv) £m	Margin note (ii) bps	Profit £m	Average liability note (iv) £m	Margin note (ii) bps	Profit £m	Average liability note (iv) £m	Margin note (ii) bps
Spread income	401	39,731	202	379	34,886	217	426	39,199	217
Fee income	1,145	123,464	186	878	92,608	190	997	105,791	188
Insurance margin	472			401			456		
Expenses:									
Acquisition costs note (i)	(463)	960	(48)%	(412)	782	(53)%	(469)	889	(53)%
Administration expenses	(593)	169,180	(70)	(452)	134,369	(67)	(513)	152,730	(67)
DAC adjustments	117			83			95		
Expected return on shareholder assets	–			11			18		
Operating profit based on longer-term investment returns	1,079			888			1,010		

See notes at the end of this section.

Analysis of US operating profit drivers

— Spread income has decreased by 6 per cent at constant exchange rates (AER: increased by 6 per cent) to £401 million in the first half of 2017. The reported spread margin decreased to 202 basis points from 217 basis points in the first half of 2016, due to lower investment yields. Spread income benefited from swap transactions previously entered into to more closely match the asset and liability duration. Excluding this effect, the spread margin would have been 147 basis points (half year 2016 CER: 150 basis points and AER: 151 basis points).

— Fee income has increased by 15 per cent at constant exchange rates (AER: increased by 30 per cent) to £1,145 million during the first half of 2017, primarily due to higher average separate account balances resulting from positive net cash flows from variable annuity business and market appreciation.

— Insurance margin represents operating profits from insurance risks, including variable annuity guarantees and other sundry items. Insurance margin increased to £472 million in the first half of 2017 compared to £456 million at constant exchange rates at half year 2016. The increase was primarily due to higher income from variable annuity guarantees partially offset by a decline in the contribution from the closed books of business.

— Acquisition costs, which are commissions and expenses incurred to acquire new business, including those that are not deferrable, have decreased in absolute terms and as a percentage of APE compared to the first half of 2016 at constant exchange rates. This is due to the continued increase in producers selecting asset-based commissions which are paid upon policy anniversary dates and are treated as an administrative expense in this analysis, rather than front-end commissions and the result of change in product mix.

— Administration expenses increased to £593 million during the first half of 2017, compared to £513 million for the first half of 2016 at a constant exchange rate (AER: £452 million), primarily as a result of higher asset-based commissions. Excluding these trail commissions, the resulting administration expense ratio would remain flat at 36 basis points (half year 2016: 36 basis points at CER and AER).

— DAC adjustments increased to £117 million during the first half of 2017, compared to £95 million at a constant exchange rate (AER: £83 million) during the first half of 2016, primarily due to lower DAC amortisation due to higher fund returns.

Analysis of pre-tax operating profit before and after acquisition costs and DAC adjustments

	Half year 2017 £m				Half year 2016 AER £m				Half year 2016 CER £m note (iii)			
	Other operating profits	Acquisition costs Incurred	Acquisition costs Deferred	Total	Other operating profits	Acquisition costs Incurred	Acquisition costs Deferred	Total	Other operating profits	Acquisition costs Incurred	Acquisition costs Deferred	Total
Total operating profit before acquisition costs and DAC adjustments	1,425			1,425	1,217			1,217	1,384			1,384
Less new business strain		(463)	353	(110)		(412)	320	(92)		(469)	364	(105)
Other DAC adjustments – amortisation of previously deferred acquisition costs:												
Normal			(272)	(272)			(266)	(266)			(303)	(303)
Deceleration			36	36			29	29			34	34
Total	1,425	(463)	117	1,079	1,217	(412)	83	888	1,384	(469)	95	1,010

Analysis of operating profit based on longer-term investment returns for US operations by product

	2017 £m	2016 £m		%	
	Half year	AER Half year	CER Half year	Half year 2017 vs half year 2016 AER	Half year 2017 vs half year 2016 CER
Spread business note (a)	176	154	175	14%	1%
Fee business note (b)	852	642	730	33%	17%
Life and other business note (c)	51	92	105	(45)%	(51)%
Total insurance operations	1,079	888	1,010	22%	7%
US asset management and broker-dealer	(6)	(12)	(13)	50%	54%
Total US operations	1,073	876	997	22%	8%

The analysis of operating profit based on longer-term investment returns for US operations by product represents the net profit generated by each line of business after allocation of costs. Broadly:

a) Spread business is the net operating profit for fixed annuity, fixed indexed annuity and guaranteed investment contracts and largely comprises spread income less costs.
b) Fee business represents profits from variable annuity products. As well as fee income revenue for this product line includes spread income from investments directed to the general account and other variable annuity fees included in insurance margin.
c) Life and other business includes the profits from the REALIC business and other closed life books. Revenue allocated to this product line includes spread income and premiums and policy charges for life protection, which are included in insurance margin after claim costs. Insurance margin forms the vast majority of revenue.

Additional financial information
Continued

I IFRS profit and loss information continued

I(a) Analysis of long-term insurance business pre-tax IFRS operating profit based on longer-term investment returns by driver continued

Margin analysis of long-term insurance business – UK

	UK					
	Half year 2017			Half year 2016		
Long-term business	**Profit** £m	**Average liability** note (iv) £m	**Margin** note (ii) bps	**Profit** £m	**Average liability** note (iv) £m	**Margin** note (ii) bps
Spread income	74	33,807	44	96	32,623	59
Fee income	31	22,518	27	29	21,495	27
With-profits	142	103,929	27	138	92,674	30
Insurance margin	22			25		
Margin on revenues	82			86		
Expenses:						
Acquisition costs note (i)	(42)	721	(6)%	(42)	593	(7)%
Administration expenses	(67)	56,325	(24)	(58)	54,118	(21)
DAC adjustments	3			(2)		
Expected return on shareholders' assets	47			61		
	292			333		
Longevity reinsurance and other management actions to improve solvency	188			140		
Operating profit based on longer-term investment returns	480			473		

Analysis of UK operating profit drivers

- Spread income has decreased from £96 million in half year 2016 to £74 million in half year 2017 mainly due to lower annuity sales. Spread income has two components:
  - A contribution from new annuity business which was lower at £4 million in half year 2017 compared to £27 million in half year 2016, reflecting our withdrawal from this market; and
  - A contribution from in-force annuity and other business, which was broadly in line with last year at £70 million (half year 2016: £69 million), equivalent to 41 basis points of average reserves (half year 2016: 42 basis points).
- Fee income principally represents asset management fees from unit-linked business, including direct investment only business to group pension schemes, where liability flows are driven by a small number of large single mandate transactions and fee income mostly arise within our UK asset management business. Excluding these schemes, the fee margin on the remaining balance was 40 basis points (half year 2016: 40 basis points).
- Margin on revenues represents premium charges for expenses of shareholder-backed business and other sundry net income.
- Acquisition costs incurred were £42 million, equivalent to 6 per cent of total APE sales in half year 2017 (half year 2016: 7 per cent). The ratio above expresses the percentage of shareholder acquisition costs as a percentage of total APE sales. It is therefore impacted by the level of with-profits sales in the year. Acquisition costs as a percentage of shareholder-backed new business sales were 32 per cent in half year 2017 (half year 2016: 33 per cent).
- The contribution from longevity reinsurance and other management actions to improve solvency during half year 2017 was £188 million (half year 2016: £140 million). Further explanation and analysis is provided in Additional financial information section I(d).

Notes

(i) The ratio for acquisition costs is calculated as a percentage of APE sales including with-profits sales. Acquisition costs include only those relating to shareholder-backed business.

(ii) Margin represents the operating return earned in the period as a proportion of the relevant class of policyholder liabilities excluding unallocated surplus. The margin is on an annualised basis in which half year profits are annualised by multiplying by two.

(iii) The half year 2016 comparative information has been presented at actual exchange rates and constant exchange rates so as to eliminate the impact of exchange translation. CER results are calculated by translating prior period results using the current period foreign exchange rates. All CER profit figures have been translated at current period average rates. For Asia CER average liability calculations the policyholder liabilities have been translated using current period opening and closing exchange rates. For the US CER average liability calculations the policyholder liabilities have been translated at the current period month end closing exchange rates. See also note A1.

(iv) For UK and Asia, opening and closing policyholder liabilities have been used to derive an average balance for the period, as a proxy for average balances throughout the period. The calculation of average liabilities for Jackson is generally derived from month end balances throughout the period as opposed to opening and closing balances only. The average liabilities for fee income in Jackson have been calculated using daily balances instead of month end balances in order to provide a more meaningful analysis of the fee income, which is charged on the daily account balance. Average liabilities for spread income are based on the general account liabilities to which spread income attaches. Average liabilities used to calculate the administration expense margin exclude the REALIC liabilities reinsured to third parties prior to the acquisition by Jackson. Average liabilities are adjusted for business acquisitions and disposals in the period.

(v) The DAC adjustment contains £10 million in respect of joint ventures and associate in half year 2017 (half year 2016: £14 million).

(vi) Following its sale in May 2017, the half year 2016 comparative operating result has been adjusted to exclude the result attributable to the sold Korea life business. This approach is consistent with that applied at full year 2016.

I(b) Asia operations – analysis of IFRS operating profit by business unit

Operating profit based on longer-term investment returns for Asia operations are analysed below. The table below presents the half year 2016 results on both actual exchange rates (AER) and constant exchange rates (CER) bases so as to eliminate the impact of exchange translation.

	2017 £m	2016* £m		%		2016 £m
	Half year	AER Half year	CER Half year	Half year 2017 vs half year 2016 AER	Half year 2017 vs half year 2016 CER	AER Full year
Hong Kong	157	96	109	64%	44%	238
Indonesia	232	193	221	20%	5%	428
Malaysia	86	71	76	21%	13%	147
Philippines	21	17	18	24%	17%	38
Singapore	133	111	125	20%	6%	235
Thailand	46	39	44	18%	5%	92
Vietnam	57	44	49	30%	16%	114
South-east Asia operations including Hong Kong	732	571	642	28%	14%	1,292
China	39	20	21	95%	86%	64
Taiwan	19	13	17	46%	12%	35
Other	27	23	28	17%	(4)%	49
Non-recurrent items note (ii)	54	42	46	29%	17%	67
Total insurance operations note (i)	871	669	754	30%	16%	1,507
Development expenses	(1)	(2)	(2)	50%	50%	(4)
Total long-term business operating profit	870	667	752	30%	16%	1,503
Eastspring Investments	83	61	69	36%	20%	141
Total Asia operations	953	728	821	31%	16%	1,644

* Following its sale in May 2017, the half year 2016 comparative operating result has been adjusted to exclude the result attributable to the sold Korea life business. This approach is consistent with that applied at full year 2016.

Notes

(i) Analysis of operating profit between new and in force business
The result for insurance operations comprises amounts in respect of new business and business in force as follows:

	2017 £m	2016 £m		
	Half year	AER Half year	CER Half year	AER Full year
New business strain†	(40)	(17)	(19)	(29)
Business in force	857	644	727	1,469
Non-recurrent items note (ii)	54	42	46	67
Total	871	669	754	1,507

† The IFRS new business strain corresponds to approximately (2.0) per cent of new business APE sales for half year 2017 (half year 2016: approximately (1.1) per cent; full year 2016: approximately (0.8) per cent).

The strain represents the pre-tax regulatory basis strain to net worth after IFRS adjustments; for deferral of acquisition costs and deferred income where appropriate.

(ii) Other non-recurrent items of £54 million in 2017 (half year 2016: £42 million; full year 2016: £67 million) represent a small number of items.

I IFRS profit and loss information continued

I(c) Analysis of asset management operating profit based on longer-term investment returns

	Half year 2017 £m				
	M&G note (ii)	Eastspring Investments note (ii)	Prudential Capital	US	Total
Operating income before performance-related fees	495	205	56	124	880
Performance-related fees	6	3	–	–	9
Operating income (net of commission) note (i)	501	208	56	124	889
Operating expense note (i)	(261)	(113)	(50)	(130)	(554)
Share of associate's results	8	–	–	–	8
Group's share of tax on joint ventures' operating profit	–	(12)	–	–	(12)
Operating profit (loss) based on longer-term investment returns	248	83	6	(6)	331
Average funds under management	£267.2bn	£124.9bn			
Margin based on operating income*	37bps	33bps			
Cost/income ratio†	53%	55%			

	Half year 2016 £m				
	M&G note (ii)	Eastspring Investments note (ii)	Prudential Capital	US	Total
Operating income before performance-related fees	440	155	61	109	765
Performance-related fees	9	1	–	–	10
Operating income (net of commission) note (i)	449	156	61	109	775
Operating expense note (i)	(229)	(87)	(48)	(121)	(485)
Share of associate's results	5	–	–	–	5
Group's share of tax on joint ventures' operating profit	–	(8)	–	–	(8)
Operating profit based on longer-term investment returns	225	61	13	(12)	287
Average funds under management	£243.2bn	£102.2bn			
Margin based on operating income*	36bps	30bps			
Cost/income ratio†	52%	56%			

	Full year 2016 £m				
	M&G note (ii)	Eastspring Investments note (ii)	Prudential Capital	US	Total
Operating income before performance-related fees	923	353	118	235	1,629
Performance-related fees	33	7	–	–	40
Operating income (net of commission) note (i)	956	360	118	235	1,669
Operating expense note (i)	(544)	(198)	(91)	(239)	(1,072)
Share of associate's results	13	–	–	–	13
Group's share of tax on joint ventures' operating profit	–	(21)	–	–	(21)
Operating profit based on longer-term investment returns	425	141	27	(4)	589
Average funds under management	£250.4bn	£109.0bn			
Margin based on operating income*	37bps	32bps			
Cost/income ratio†	59%	56%			

Notes

(i) Operating income and expense include the Group's share of contributions from joint ventures (but excludes any contribution from the associate). In the income statement as shown in note B2 of the IFRS financial statements, the net post-tax income of the joint ventures and associate is shown as a single item.

(ii) M&G and Eastspring Investments can be further analysed as follows:

	M&G					
	Operating income before performance-related fees					
	Retail £m	Margin of FUM* bps	Institutional‡ £m	Margin of FUM* bps	Total £m	Margin of FUM* bps
30 Jun 2017	**285**	**86**	**210**	**21**	**495**	**37**
30 Jun 2016	247	87	193	21	440	36
31 Dec 2016	504	86	419	22	923	37

	Eastspring Investments					
	Operating income before performance-related fees					
	Retail £m	Margin of FUM* bps	Institutional‡ £m	Margin of FUM* bps	Total £m	Margin of FUM* bps
30 Jun 2017	**120**	**57**	**85**	**20**	**205**	**33**
30 Jun 2016	91	53	64	19	155	30
31 Dec 2016	211	58	142	20	353	32

* Margin represents operating income before performance related fees as a proportion of the related funds under management (FUM). Half year figures have been annualised by multiplying by two. Monthly closing internal and external funds managed by the respective entity have been used to derive the average. Any funds held by the Group's insurance operations which are managed by third parties outside of the Prudential Group are excluded from these amounts.

† Cost/income ratio represents cost as a percentage of operating income before performance related fees.

‡ Institutional includes internal funds.

I IFRS profit and loss information continued

I(d) Contribution to UK life financial metrics from specific management actions undertaken to position the balance sheet more efficiently under the Solvency II regime

In the first half of 2017, further management actions were taken to improve the solvency of UK insurance operations and to mitigate market risks. These actions included extending the reinsurance of longevity risk to cover a further £0.6 billion of IFRS annuity liabilities. As at 30 June 2017, the total IFRS annuity liabilities subject to longevity reinsurance were £14.8 billion. Management actions also repositioned the fixed income asset portfolio to improve the trade-off between yield and credit risk.

The effect of these actions on the UK's long-term IFRS operating profit, underlying free surplus generation and EEV operating profit is shown in the tables below.

IFRS operating profit of UK long-term business

	2017 £m	2016 £m	
	Half year	Half year	Full year
Shareholder-backed annuity new business:			
Retail	4	27	41
Bulks	–	–	–
	4	27	41
In-force business:			
Longevity reinsurance transactions	31	66	197
Other management actions to improve solvency	157	74	135
Provision for the review of past annuity sales	–	–	(175)
	188	140	157
With-profits and other in-force	288	306	601
Total life IFRS operating profit	480	473	799

Underlying free surplus generation of UK long-term business

	2017 £m	2016 £m	
	Half year	Half year	Full year
Expected in-force and return on net worth	349	334	693
Longevity reinsurance transactions	15	53	126
Other management actions to improve solvency	178	137	225
Provision for the review of past annuity sales	–	–	(145)
	193	190	206
Changes in operating assumptions, experience variances and Solvency II and other restructuring costs	21	31	8
Underlying free surplus generated from in-force business	563	555	907
New business strain	(42)	(56)	(129)
Total underlying free surplus generation	521	499	778

EEV post-tax operating profit of UK long-term business

	2017 £m	2016 £m	
	Half year	Half year	Full year
Unwind of discount and other expected return	232	205	445
Longevity reinsurance transactions	(6)	(10)	(90)
Other management actions to improve solvency	65	41	110
Provision for the review of past annuity sales	–	–	(145)
	59	31	(125)
Changes in operating assumptions and experience variances	13	23	55
Operating profit from in-force business	304	259	375
New business profit:			
Shareholder-backed annuity	4	17	32
Other products	157	108	236
	161	125	268
Total post-tax life EEV operating profit	465	384	643

II Other information

II(a) Holding company cash flow*

	2017 £m	2016 £m	
	Half year	Half year	Full year
Net cash remitted by business units:			
UK life net remittances to the Group			
With-profits remittance	215	215	215
Shareholder-backed business remittance	–	–	85
	215	215	300
Other UK paid to Group	–	131	147
Total UK net remittances to the Group	215	346	447
US remittances to the Group	475	339	420
Total Asia net remittances to the Group	350	258	516
M&G remittances to the Group	175	150	290
Prudential Capital remittances to the Group	15	25	45
Net remittances to the Group from business units†	1,230	1,118	1,718
Net interest paid	(207)	(157)	(333)
Tax received	84	67	132
Corporate activities	(103)	(109)	(215)
Total central outflows	(226)	(199)	(416)
Net operating holding company cash flow before dividend	1,004	919	1,302
Dividend paid	(786)	(935)	(1,267)
Operating holding company cash flow after dividend	218	(16)	35
Non-operating net cash flow‡	(186)	382	335
Total holding company cash flow	32	366	370
Cash and short-term investments at beginning of period	2,626	2,173	2,173
Foreign exchange movements	(1)	7	83
Cash and short-term investments at end of period	2,657	2,546	2,626

* The holding company cash flow differs from the IFRS cash flow statement, which includes all cash flows in the period including those relating to both policyholder and shareholder funds. The holding company cash flow is therefore a more meaningful indication of the Group's central liquidity.
† Net cash remittances comprise dividends and other transfers from business units that are reflective of emerging earnings and capital generation.
‡ Non-operating net cash flow is principally for corporate transactions for distribution rights and acquired businesses, and issue or repayment of subordinated debt.

Additional financial information
Continued

II Other information continued

II(b) Funds under management

For our asset management businesses, funds managed on behalf of third parties are not recorded on the balance sheet. They are however a driver of profitability. We therefore analyse the movement in the funds under management each period, focusing on those which are external to the Group and those held by the insurance businesses and included on the Group balance sheet. This is analysed below.

(a) Summary

	2017 £bn	**2016** £bn	
	30 Jun	**30 Jun**	**31 Dec**
Business area:			
Asia operations	75.8	66.3	69.6
US operations	174.6	156.5	173.3
UK operations	193.8	180.9	185.0
Prudential Group funds under management note (i)	444.2	403.7	427.9
External funds note (ii)	190.7	158.6	171.4
Total funds under management	634.9	562.3	599.3

Notes

(i) Prudential Group funds under management comprise:

	2017 £bn	**2016** £bn	
	30 Jun	**30 Jun**	**31 Dec**
Total investments per the consolidated statement of financial position	437.4	398.2	421.7
Less: investments in joint ventures and associates accounted for using the equity method	(1.3)	(1.1)	(1.2)
Internally managed funds held in joint ventures	7.7	6.2	7.0
Investment properties which are held for sale or occupied by the Group (included in other IFRS captions)	0.4	0.4	0.4
Prudential Group funds under management	444.2	403.7	427.9

(ii) External funds shown above as at 30 June 2017 of £190.7 billion (30 June 2016: £158.6 billion; 31 December 2016: £171.4 billion) comprise £202.0 billion (30 June 2016: £169.8 billion; 31 December 2016: £182.5 billion) of funds managed by M&G and Eastspring Investments as shown in note (b) below less £11.3 billion (30 June 2016: £11.2 billion; 31 December 2016: £11.1 billion) that are classified within Prudential Group's funds.

(b) Investment products – external funds under management

	Half year 2017 £m			Half year 2016 £m			Full year 2016 £m		
	Eastspring Investments note	M&G	Group total note	Eastspring Investments note	M&G	Group total note	Eastspring Investments note	M&G	Group total note
At beginning of period	45,756	136,763	182,519	36,287	126,405	162,692	36,287	126,405	162,692
Market gross inflows	108,240	22,677	130,917	68,465	9,731	78,196	164,004	22,841	186,845
Redemptions	(105,468)	(15,498)	(120,966)	(68,221)	(16,697)	(84,918)	(161,766)	(30,931)	(192,697)
Market exchange translation and other movements	4,395	5,176	9,571	3,618	10,217	13,835	7,231	18,448	25,679
At end of period	52,923	149,118	202,041	40,149	129,656	169,805	45,756	136,763	182,519

Note
The £202.0 billion (30 June 2016: £169.8 billion; 31 December 2016: £182.5 billion) investment products comprise £193.7 billion (30 June 2016: £162.4 billion; 31 December 2016: £174.8 billion) plus Asia Money Market Funds of £8.3 billion (30 June 2016: £7.4 billion; 31 December 2016: £7.7 billion).

(c) M&G and Eastspring Investments – total funds under management

	Eastspring Investments note			M&G		
	30 Jun 2017 £bn	30 Jun 2016 £bn	31 Dec 2016 £bn	30 Jun 2017 £bn	30 Jun 2016 £bn	31 Dec 2016 £bn
External funds under management	52.9	40.1	45.7	149.1	129.7	136.8
Internal funds under management	77.6	64.8	72.2	132.4	125.7	128.1
Total funds under management	130.5	104.9	117.9	281.5	255.4	264.9

Note
The external funds under management for Eastspring Investments include Asia Money Market Funds at 30 June 2017 of £8.3 billion (30 June 2016: £7.4 billion; 31 December 2016: £7.7 billion).

Additional financial information
Continued

II Other information continued

II(c) Solvency II capital position at 30 June 2017

The estimated Group shareholder Solvency II surplus at 30 June 2017 was £12.9 billion, before allowing for payment of the 2017 first interim dividend and after allowing for management's estimate of transitional measures reflecting operating and market conditions as at 30 June 2017.

Estimated Group shareholder Solvency II capital position*	30 Jun 2017 £bn	30 Jun 2016 £bn	31 Dec 2016 £bn
Own funds	25.6	21.1	24.8
Solvency capital requirement	12.7	12.0	12.3
Surplus	12.9	9.1	12.5
Solvency ratio	202%	175%	201%

* The Group shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profit funds and staff pension schemes in surplus. The solvency positions include management's estimates of UK transitional measures reflecting operating and market conditions at each valuation date.

In accordance with Solvency II requirements, these results allow for:

- Capital in Jackson in excess of 250 per cent of the US local Risk Based Capital requirement. As agreed with the Prudential Regulation Authority, this is incorporated in the result above as follows:
  - Own funds: represents Jackson's local US Risk Based available capital less 100 per cent of the US Risk Based Capital requirement (Company Action Level);
  - Solvency Capital Requirement: represents 150 per cent of Jackson's local US Risk Based Capital requirement (Company Action Level); and
  - No diversification benefits are taken into account between Jackson and the rest of the Group.
- Matching adjustment for UK annuities and volatility adjustment for US dollar denominated Hong Kong with-profits business, based on approvals from the Prudential Regulation Authority and calibrations published by the European Insurance and Occupational Pensions Authority; and
- UK transitional measures, which have been recalculated using management's estimate of the impact of operating and market conditions at the valuation date. The estimated Group shareholder surplus would increase from £12.9 billion to £13.6 billion at 30 June 2017 if the approved regulatory transitional amount was applied instead.

The Group shareholder Solvency II capital position excludes:

- A portion of Solvency II surplus capital (£1.6 billion at 30 June 2017) relating to the Group's Asian life operations, including due to 'contract boundaries';
- The contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profits funds in surplus (representing £4.1 billion of surplus capital from UK with-profits funds at 30 June 2017) and from the shareholders' share of the estate of with-profits funds; and
- The contribution to Own Funds and the Solvency Capital Requirement from pension funds in surplus.

It also excludes unrealised gains on certain derivative instruments taken out to protect Jackson against declines in long-term interest rates. At Jackson's request, the Department of Insurance Financial Services renewed its approval to carry these instruments at book value in the local statutory returns for the period 31 December 2016 to 1 October 2017. At 30 June 2017, this approval had the effect of decreasing local statutory capital and surplus (and by extension Solvency II Own Funds and Solvency II surplus) by £0.4 billion, net of tax. This arrangement reflects an elective long-standing practice first put in place in 2009, which can be unwound at Jackson's discretion.

The 30 June 2017 Solvency II results above allow for the completion of the sale of the Korea life business in the first half of 2017.

Further information on the Solvency II capital position for the Group and The Prudential Assurance Company Limited is published annually in the Solvency and Financial Condition Reports. These were last published on the Group's website on 18 May 2017.

Analysis of movement in Group capital position

A summary of the estimated movement in Group Solvency II surplus from £12.5 billion at year end 2016 to £12.9 billion at half year 2017 is set out in the table below. The movement from the Group Solvency II surplus at 31 December 2015 to the Solvency II surplus at 30 June 2016 and 31 December 2016 is included for comparison.

Analysis of movement in Group shareholder surplus	Half year 2017 £bn Surplus	Half year 2016 £bn Surplus	Full year 2016 £bn Surplus
Estimated Solvency II surplus at 1 January 2017/1 January 2016	12.5	9.7	9.7
Underlying operating experience	1.5	1.0	2.3
Management actions	0.2	0.2	0.4
Operating experience	1.7	1.2	2.7
Non-operating experience (including market movements)	0.0	(2.4)	(1.1)
Other capital movements			
Subordinated debt issuance	–	0.7	1.2
Foreign currency translation impacts	(0.5)	0.9	1.6
Dividends paid	(0.8)	(0.9)	(1.3)
Model changes	0.0	(0.1)	(0.3)
Estimated Solvency II surplus at end period	12.9	9.1	12.5

The estimated movement in Group Solvency II surplus in the first half of 2017 is driven by:

- *Operating experience of £1.7 billion:* generated by in-force business and new business written in 2017, after allowing for amortisation of the UK transitional and the impact of one-off management optimisations implemented over the period;
- *Non-operating experience:* has been neutral overall during the first half of 2017, after allowing for the recalculation of the UK transitional at the valuation date; and
- *Other capital movements:* comprising a loss from foreign currency translation in the first half of 2017 and a reduction in surplus from payment of dividends.

Analysis of Group Solvency Capital Requirements

The split of the Group's estimated Solvency Capital Requirement by risk type including the capital requirements in respect of Jackson's risk exposures based on 150 per cent of US Risk Based Capital requirements (Company Action Level) but with no diversification between Jackson and the rest of the Group, is as follows:

	30 Jun 2017		31 Dec 2016	
Split of the Group's estimated Solvency Capital Requirements	% of undiversified Solvency Capital Requirements	% of diversified Solvency Capital Requirements	% of undiversified Solvency Capital Requirements	% of diversified Solvency Capital Requirements
Market	56%	71%	55%	68%
Equity	13%	21%	12%	19%
Credit	25%	40%	25%	41%
Yields (interest rates)	14%	8%	13%	7%
Other	4%	2%	5%	1%
Insurance	27%	21%	28%	23%
Mortality/morbidity	5%	2%	5%	2%
Lapse	16%	17%	16%	19%
Longevity	6%	2%	7%	2%
Operational/expense	10%	6%	11%	7%
FX translation	7%	2%	6%	2%

Additional financial information
Continued

II Other information continued

II(c) Solvency II capital position at 30 June 2017 continued
Reconciliation of IFRS equity to Group Solvency II Shareholder Own Funds

Reconciliation of IFRS equity to Group Solvency II Shareholder Own Funds	30 Jun 2017 £bn	30 Jun 2016 £bn	31 Dec 2016 £bn
IFRS shareholders' equity	15.4	14.6	14.7
Restate US insurance entities from IFRS onto local US statutory basis	(2.6)	(3.1)	(2.2)
Remove DAC, goodwill and intangibles	(3.9)	(3.9)	(3.8)
Add subordinated debt	6.1	5.7	6.3
Impact of risk margin (net of transitionals)	(3.6)	(3.3)	(3.4)
Add value of shareholder transfers	4.6	3.1	4.0
Liability valuation differences	10.7	9.7	10.5
Increase in value of net deferred tax liabilities (resulting from valuation differences above)	(1.4)	(1.2)	(1.3)
Other	0.3	(0.5)	0.0
Estimated Solvency II Shareholder Own Funds	25.6	21.1	24.8

The key items of the reconciliation as at 30 June 2017 are:

— £(2.6) billion represents the adjustment required to the Group's shareholders' funds in order to convert Jackson's contribution from an IFRS basis to the local statutory valuation basis. This item also reflects a derecognition of Own Funds of £0.8 billion, equivalent to the value of 100 per cent of Risk Based Capital requirements (Company Action Level), as agreed with the Prudential Regulation Authority;
— £(3.9) billion due to the removal of DAC, goodwill and intangibles from the IFRS balance sheet;
— £6.1 billion due to the addition of subordinated debt which is treated as available capital under Solvency II but as a liability under IFRS;
— £(3.6) billion due to the inclusion of a risk margin for UK and Asia non-hedgeable risks, net of £2.1 billion from transitional measures (after recalculation for management's estimate of the impact of operating and market conditions on the UK transitional as at 30 June 2017), all of which are not applicable under IFRS;
— £4.6 billion due to the inclusion of the value of future shareholder transfers from with-profits business (excluding the shareholders' share of the with-profits estate, for which no credit is given under Solvency II), which is excluded from the determination of the Group's IFRS shareholders' funds;
— £10.7 billion due to differences in insurance valuation requirements between Solvency II and IFRS, with Solvency II Own Funds partially capturing the value of in-force business which is excluded from IFRS;
— £(1.4) billion due to the impact on the valuation of deferred tax assets and liabilities resulting from the other valuation differences noted above; and
— £0.3 billion due to other items, including the impact of revaluing loans, borrowings and debt from IFRS to Solvency II.

Sensitivity analysis
The estimated sensitivity of the Group shareholder Solvency II capital position to significant changes in market conditions is as follows:

Impact of market sensitivities	30 Jun 2017 Surplus £bn	30 Jun 2017 Ratio	31 Dec 2016 Surplus £bn	31 Dec 2016 Ratio
Base position	12.9	202%	12.5	201%
Impact of:				
20% instantaneous fall in equity markets	0.1	4%	0.0	3%
40% fall in equity markets[1]	(1.2)	(3)%	(1.5)	(7)%
50 basis points reduction in interest rates[2,3]	(0.4)	(9)%	(0.6)	(9)%
100 basis points increase in interest rates[3]	0.9	18%	1.0	13%
100 basis points increase in credit spreads[4]	(1.1)	(3)%	(1.1)	(3)%

Notes
1 Where hedges are dynamic, rebalancing is allowed for by assuming an instantaneous 20 per cent fall followed by a further 20 per cent fall over a four-week period.
2 Subject to a floor of zero.
3 Allowing for further transitional recalculation after the interest rate stress.
4 US Risk Based Capital solvency position included using a stress of 10 times expected credit defaults.

The Group is positioned to withstand significant deteriorations in market conditions and we continue to use market hedges to manage some of this exposure across the Group, where we believe the benefit of the protection outweighs the cost. The sensitivity analysis above allows for predetermined management actions and those taken to date, but does not reflect all possible management actions which could be taken in the future.

UK Solvency II capital position[1,2]

On the same basis as above, the estimated UK shareholder Solvency II surplus at 30 June 2017 was £5.3 billion, after allowing for management's estimate of transitional measures reflecting operating and market conditions as at 30 June 2017. This relates to shareholder-backed business including future with-profits shareholder transfers, but excludes the shareholders' share of the estate in line with Solvency II requirements.

Estimated UK shareholder Solvency II capital position*	**30 Jun 2017** £bn	**30 Jun 2016** £bn	**31 Dec 2016** £bn
Own funds	13.0	10.6	12.0
Solvency capital requirement	7.7	7.7	7.4
Surplus	5.3	2.9	4.6
Solvency ratio	168%	138%	163%

* The UK shareholder capital position excludes the contribution to Own Funds and the Solvency Capital Requirement from ring-fenced with-profit funds and staff pension schemes in surplus. The solvency positions include management's estimate of UK transitional measures reflecting operating and market conditions at each valuation date. The estimated UK shareholder surplus would increase from £5.3 billion to £6.0 billion at 30 June 2017 if the approved regulatory transitional amount was applied instead.

While the surplus position of the UK with-profits funds remains strong on a Solvency II basis, it is ring-fenced from the shareholder balance sheet and is therefore excluded from both the Group and the UK shareholder Solvency II surplus results. The estimated UK with-profits funds Solvency II surplus at 30 June 2017 was £4.1 billion, after allowing for management's estimate of transitional measures reflecting operating and market conditions as at 30 June 2017.

Estimated UK with-profits Solvency II capital position	**30 Jun 2017** £bn	**30 Jun 2016** £bn	**31 Dec 2016** £bn
Own funds	8.6	8.2	8.4
Solvency capital requirement	4.5	4.7	4.7
Surplus	4.1	3.5	3.7
Solvency ratio	192%	176%	179%

Reconciliation of UK with-profits IFRS unallocated surplus to Solvency II Own Funds[2]

A reconciliation between the IFRS unallocated surplus and Solvency II Own Funds for UK with-profits business is as follows:

Reconciliation of UK with-profits funds	**30 Jun 2017** £bn	**30 Jun 2016** £bn	**31 Dec 2016** £bn
IFRS unallocated surplus of UK with-profits funds	12.1	11.2	11.7
Adjustments from IFRS basis to Solvency II:			
Value of shareholder transfers	(2.5)	(1.9)	(2.3)
Risk margin (net of transitional)	(0.6)	(0.7)	(0.7)
Other valuation differences	(0.4)	(0.4)	(0.3)
Estimated Solvency II Own Funds	8.6	8.2	8.4

Statement of independent review in respect of Solvency II Capital Position at 30 June 2017[3]

The methodology, assumptions and overall result have been subject to examination by KPMG LLP.

Notes

1 The UK shareholder capital position represents the consolidated capital position of the shareholder funds of The Prudential Assurance Company Ltd (PAC) and all its subsidiaries.
2 The UK with-profits capital position includes the PAC with-profits sub-fund, the Scottish Amicable Insurance Fund and the Defined Charge Participating Sub-Fund.
3 This review is separate from that set out on page 90.

II Other information continued

II(d) Option schemes

The Group presently grants share options through four schemes, and exercises of the options are satisfied by the issue of new shares. Executive Directors and eligible employees based in the UK may participate in the UK savings-related share option scheme. Executives and eligible employees based in Asia as well as eligible employees based in Europe can participate in the international savings-related share option scheme while agents based in certain regions of Asia can participate in the international savings-related share option scheme for non-employees. Employees based in Dublin are eligible to participate in the Prudential International Assurance sharesave plan, which currently has no outstanding options in issue. Further details of the schemes and accounting policies are detailed in note B3.2 of the IFRS basis consolidated financial statements in the 2016 annual report.

All options were granted at £nil consideration. No options have been granted to substantial shareholders, suppliers of goods or services (excluding options granted to agents under the non-employee savings-related share option scheme) or in excess of the individual limit for the relevant scheme.

The options schemes will terminate as follows, unless the Directors resolve to terminate the plans at an earlier date:

- UK savings-related share option scheme: 16 May 2023;
- International savings-related share option scheme: 31 May 2021;
- Prudential International Assurance sharesave plan: 3 August 2019; and
- International savings-related share option scheme for non-employees 2012: 17 May 2022.

The weighted average share price of Prudential plc for the period ended 30 June 2017 was £16.77 (30 June 2016: £12.85).

The following analyses show the movements in options for each of the option schemes for the period ended 30 June 2017.

UK savings-related share option scheme

		Exercise period		Number of shares under options						
Date of grant	Exercise price £	Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
16 Sep 11	4.66	01 Dec 16	31 May 17	36,006	–	(36,006)	–	–	–	–
21 Sep 12	6.29	01 Dec 17	31 May 18	119,886	–	–	–	(477)	(1,431)	117,978
20 Sep 13	9.01	01 Dec 16	31 May 17	73,812	–	(69,644)	–	(998)	(1,795)	1,375
20 Sep 13	9.01	01 Dec 18	31 May 19	70,258	–	(1,698)	–	(332)	(963)	67,265
23 Sep 14	11.55	01 Dec 17	31 May 18	759,088	–	(14,350)	(10,013)	(9,828)	(5,613)	719,284
23 Sep 14	11.55	01 Dec 19	31 May 20	390,761	–	(5,098)	(786)	(524)	(5,966)	378,387
22 Sep 15	11.11	01 Dec 18	31 May 19	933,241	–	(10,100)	(16,976)	(7,046)	(15,022)	884,097
22 Sep 15	11.11	01 Dec 20	31 May 21	223,807	–	(486)	(810)	(3,240)	(1,134)	218,137
21 Sep 16	11.04	01 Dec 19	31 May 20	719,147	–	(710)	(11,311)	(8,948)	(6,171)	692,007
21 Sep 16	11.04	01 Dec 21	31 May 22	164,428	–	–	(6,520)	(1,358)	–	156,550
				3,490,434	–	(138,092)	(46,416)	(32,751)	(38,095)	3,235,080

The total number of securities available for issue under the scheme is 3,235,080 which represents 0.125 per cent of the issued share capital at 30 June 2017.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £16.56.

International savings-related share option scheme

		Exercise period		Number of shares under options						
Date of grant	Exercise price £	Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
16 Sep 11	4.66	01 Dec 16	31 May 17	722	–	(722)	–	–	–	–
21 Sep 12	6.29	01 Dec 15	31 May 16	2,725	–	(2,725)	–	–	–	–
21 Sep 12	6.29	01 Dec 17	31 May 18	14,501	–	(154)	(225)	–	–	14,122
20 Sep 13	9.01	01 Dec 16	31 May 17	131,680	–	(126,373)	(149)	(7)	(5,151)	–
20 Sep 13	9.01	01 Dec 18	31 May 19	43,676	–	(1,396)	–	(600)	–	41,680
23 Sep 14	11.55	01 Dec 17	31 May 18	7,709	–	–	–	–	–	7,709
23 Sep 14	11.55	01 Dec 19	31 May 20	4,464	–	–	–	–	–	4,464
22 Sep 15	11.11	01 Dec 18	31 May 19	23,556	–	–	–	–	–	23,556
22 Sep 15	11.11	01 Dec 20	31 May 21	3,240	–	–	–	–	–	3,240
21 Sep 16	11.04	01 Dec 19	31 May 20	15,516	–	–	–	–	–	15,516
				247,789	–	(131,370)	(374)	(607)	(5,151)	110,287

The total number of securities available for issue under the scheme is 110,287 which represents 0.004 per cent of the issued share capital at 30 June 2017.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £16.76.

Prudential International Assurance sharesave plan

There are no securities available for issue under the scheme at 30 June 2017.

Non-employee savings-related share option scheme

		Exercise period		Number of shares under options						
Date of grant	Exercise price £	Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
16 Sep 11	4.66	01 Dec 16	31 May 17	29,936	–	(29,936)	–	–	–	–
21 Sep 12	6.29	01 Dec 17	31 May 18	28,001	–	–	–	–	–	28,001
20 Sep 13	9.01	01 Dec 16	31 May 17	346,321	–	(337,618)	(300)	–	–	8,403
20 Sep 13	9.01	01 Dec 18	31 May 19	406,850	–	–	(405)	–	–	406,445
23 Sep 14	11.55	01 Dec 17	31 May 18	596,435	–	–	(10,530)	–	–	585,905
23 Sep 14	11.55	01 Dec 19	31 May 20	502,793	–	–	(4,932)	(1,298)	–	496,563
22 Sep 15	11.11	01 Dec 18	31 May 19	480,825	–	–	(8,199)	–	–	472,626
22 Sep 15	11.11	01 Dec 20	31 May 21	405,994	–	–	(2,700)	–	–	403,294
21 Sep 16	11.04	01 Dec 19	31 May 20	334,276	–	–	–	–	–	334,276
21 Sep 16	11.04	01 Dec 21	31 May 22	199,230	–	–	–	–	–	199,230
				3,330,661	–	(367,554)	(27,066)	(1,298)	–	2,934,743

The total number of securities available for issue under the scheme is 2,934,743 which represents 0.113 per cent of the issued share capital at 30 June 2017.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the current period was £16.86.

II Other information continued

II(e) Foreign currency source of key metrics

The tables below show the Group's key free surplus, IFRS and EEV metrics analysis by contribution by currency group:

Free surplus and IFRS half year 2017 results

	Underlying free surplus generated for total insurance and asset management operations %	Pre-tax operating profit % notes 2,3,4	Shareholders' funds % notes 2,3,4
US dollar linked[1]	11	22	21
Other Asia currencies	19	18	15
Total Asia	30	40	36
UK sterling[3,4]	40	14	52
US dollar[4]	30	46	12
Total	100	100	100

EEV half year 2017 results

	Post-tax new business profits %	Post-tax operating profit % notes 2,3,4	Shareholders' funds % notes 2,3,4
US dollar linked[1]	52	44	37
Other Asia currencies	12	16	13
Total Asia	64	60	50
UK sterling[3,4]	10	9	30
US dollar[4]	26	31	20
Total	100	100	100

Notes

1 US dollar linked comprise the Hong Kong and Vietnam operations where the currencies are pegged to the US dollar and the Malaysia and Singapore operations where the currencies are managed against a basket of currencies including the US dollar.
2 Includes long-term, asset management business and other businesses.
3 For operating profit and shareholders' funds, UK sterling includes amounts in respect of UK insurance operations, M&G and central operations. Operating profit for central operations includes amounts for corporate expenditure for Group Head Office as well as Asia Regional Head Office which is incurred in HK dollars.
4 For shareholders' funds, the US dollar grouping includes US dollar denominated core structural borrowings. Sterling operating profits include all interest payable as sterling denominated, reflecting interest rate currency swaps in place.

II(f) Reconciliation between IFRS and EEV shareholders' funds

The table below shows the reconciliation of EEV shareholders' funds and IFRS shareholders' funds at the end of the period:

	2017 £m	2016 £m	
	30 Jun	30 Jun	31 Dec
EEV shareholders' funds	40,520	34,981	38,968
Less: Value of in-force business of long-term business note (a)	(26,104)	(21,785)	(24,937)
Deferred acquisition costs assigned zero value for EEV purposes	9,076	8,068	9,170
Other note (b)	(8,043)	(6,659)	(8,535)
IFRS shareholders' funds	15,449	14,605	14,666

Notes

(a) The EEV shareholders' funds comprises the present value of the shareholders' interest in the value of in-force business, net worth of long-term business operations and IFRS shareholders' funds of asset management and other operations. The value of in-force business reflects the present value of future shareholder cash flows from long-term in-force business which are not captured as shareholders' interest on an IFRS basis. Net worth represents the net assets for EEV reporting purposes that reflect the regulatory basis position, sometimes with adjustments to achieve consistency with the IFRS treatment of certain items.

(b) Other adjustments represent asset and liability valuation differences between IFRS and the local regulatory reporting basis used to value net worth for long-term insurance operations. For the UK, this would be the difference between IFRS and Solvency II.

It also includes the mark to market of the Group's core borrowings which are fair valued under EEV but not IFRS. The most significant valuation differences relate to changes in the valuation of insurance liabilities. For example, in Jackson where IFRS liabilities are higher than the local regulatory basis as they are principally based on policyholder account balances (with deferred acquisition costs recognised as assets) whereas the local regulatory basis used for EEV is based on future cash flows due to the policyholder on a prudent basis with consideration of an expense allowance as applicable, but with no separate deferred acquisition cost asset.

II(g) Reconciliation of APE new business sales to earned premiums

The Group reports annual premium equivalent (APE) new business sales as a measure of the new policies sold in the period. This differs from the IFRS measure of premiums earned as shown below:

	2017 £m	2016 £m	
	Half year	Half year	Full year
Annual premium equivalents (APE) as published	3,624	2,980	6,320
Adjustment to include 100% of single premiums on new business sold in the period note (a)	15,286	12,379	25,057
Contribution from the sold Korea life business	–	88	192
Premiums from in-force business and other adjustments note (b)	3,195	2,891	7,412
Gross premiums earned	22,105	18,338	38,981
Outward reinsurance premiums	(947)	(944)	(2,020)
Earned premiums, net of reinsurance as shown in the IFRS financial statements	21,158	17,394	36,961

Notes

(a) APE new business sales only include one-tenth of single premiums, recorded on policies sold in the period. Gross premiums earned include 100 per cent of such premiums.

(b) Other adjustments principally include amounts in respect of the following:

- Gross premiums earned include premiums from existing in-force business as well as new business. The most significant amount is recorded in Asia, where a significant portion of regular premium business is written. Asia in-force premiums form the vast majority of the other adjustment amount;
- APE includes new policies written in the period which are classified as investment contracts without discretionary participation features under IFRS 4, arising mainly in Jackson for guaranteed investment contracts and in the UK for certain unit-linked savings and similar contracts. These are excluded from gross premiums earned and recorded as deposits;
- APE new business sales are annualised while gross premiums earned are recorded only when revenues are due; and
- For the purpose of reporting APE new business sales, we include the Group's share of amounts sold by the Group's insurance joint ventures and associate. Under IFRS, joint ventures and associates are equity accounted and so no amounts are included within gross premiums earned.

A number of risk factors affect Prudential's operating results and financial condition and, accordingly, the trading price of its shares. The risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. The information given is as of the date of this document, and any forward-looking statements are made subject to the reservations specified below under 'Forward-looking statements'.

Prudential's approaches to managing risks are explained in the 'Group Chief Risk Officer's report on the risks facing our business and how these are managed' section of this document.

Risks relating to Prudential's business

Prudential's businesses are inherently subject to market fluctuations and general economic conditions

Uncertainty or negative trends in international economic and investment climates could adversely affect Prudential's business and profitability. Prudential operates against a challenging background of periods of significant uncertainty and volatility in global capital and equity markets and interest rates (which in some jurisdictions are negative), together with widespread economic uncertainty. For example, government interest rates remain at or near historic lows in the US, the UK and some Asian countries in which Prudential operates. These factors could have a material adverse effect on Prudential's business and profitability.

In the future, the adverse effects of such factors would be felt principally through the following items:

— Investment impairments and/or reduced investment returns, which could reduce Prudential's capital and impair its ability to write significant volumes of new business, increase the potential adverse impact of product guarantees, or have a negative impact on its assets under management and profit;

— Higher credit defaults and wider credit and liquidity spreads resulting in realised and unrealised credit losses;

— Failure of counterparties who have transactions with Prudential (eg banks and reinsurers) to meet commitments that could give rise to a negative impact on Prudential's financial position and on the accessibility or recoverability of amounts due or, for derivative transactions, adequate collateral not being in place;

— Estimates of the value of financial instruments being difficult because in certain illiquid or closed markets, determining the value at which financial instruments can be realised is highly subjective. Processes to ascertain such values require substantial elements of judgement, assumptions and estimates (which may change over time); and

— Increased illiquidity also adds to uncertainty over the accessibility of financial resources and may reduce capital resources as valuations decline. For example, this could occur where external capital is unavailable at sustainable cost, increased liquid assets are required to be held as collateral under derivative transactions or redemption restrictions are placed on Prudential's investments in illiquid funds. In addition, significant redemption requests could also be made on Prudential's issued funds and while this may not have a direct impact on the Group's liquidity, it could result in reputational damage to Prudential.

Global financial markets are subject to uncertainty and volatility created by a variety of factors, including concerns over: the expected change in accommodative monetary policies in the US, the UK and other jurisdictions with the risk of a disorderly repricing of inflation expectations and global bond yields, sovereign debt, a general slowing in world growth, the increased level of geopolitical risk and policy-related uncertainty and potentially negative socio-political events.

On 29 March 2017 the UK submitted the formal notification of its intention to withdraw from the EU pursuant to Article 50 of the Treaty on the European Union, as amended. Following submission of this notification, the UK has a maximum period of two years to negotiate the terms of its withdrawal from the EU. If no formal withdrawal agreement is reached between the UK and the EU, then it is expected the UK's membership of the EU will automatically terminate two years after the submission of the notification of the UK's intention to withdraw from the EU. The UK's decision to leave the EU will have political, legal and economic ramifications for both the UK and the EU, although these are expected to be more pronounced for the UK. The Group has several UK domiciled operations, including Prudential UK and M&G, and these may be impacted by a UK withdrawal from the EU. The potential outcome of the negotiations on UK withdrawal and any subsequent negotiations on trade and access to the country's major trading markets, including the single EU market, is currently unknown. The ongoing uncertainty of when the UK will leave the EU, whether any form of transitional arrangements will be agreed between the UK and the EU, and the possibility of a lengthy period before negotiations are concluded may increase volatility in the markets where the Group operates and create the potential for a general downturn in economic activity and for further or prolonged interest rate reductions in some jurisdictions due to monetary easing and investor sentiment.

More generally, upheavals in the financial markets may affect general levels of economic activity, employment and customer behaviour. As a result, insurers may experience an elevated incidence of claims, lapses, or surrenders of policies, and some policyholders may choose to defer or stop paying insurance premiums. The demand for insurance products may also be adversely affected. In addition, there may be a higher incidence of counterparty failures. If sustained, this environment is likely to have a negative impact on the insurance sector over time and may consequently have a negative impact on Prudential's business and its balance sheet and profitability. For example, this could occur if the recoverable value of intangible assets for bancassurance agreements and deferred acquisition costs are reduced. New challenges related to market fluctuations and general economic conditions may continue to emerge.

For some non-unit-linked investment products, in particular those written in some of the Group's Asian operations, it may not be possible to hold assets which will provide cash flows to match those relating to policyholder liabilities. This is particularly true in those countries where bond markets are not developed and in certain markets where regulated premium and claim values are set with reference to the interest rate environment prevailing at the time of policy issue. This results in a mismatch due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of a suitable duration. While this residual asset/liability mismatch risk can be managed, it cannot be eliminated. Where interest rates in these markets remain lower than those used to calculate premium and claim values over a sustained period, this could have a material adverse effect on Prudential's reported profit.

In the US, fluctuations in prevailing interest rates can affect results from Jackson which has a significant spread-based business, with the significant proportion of its assets invested in fixed income securities. In particular, fixed annuities and stable value products written by Jackson expose Prudential to the risk that changes in interest rates, which are not fully reflected in the interest rates credited to customers, will reduce spread. The spread is the difference between the rate of return Jackson is able to earn on the assets backing the policyholders' liabilities and the amounts that are credited to policyholders in the form of benefit increases, subject to minimum crediting rates. Declines in spread from these products or other spread businesses that Jackson conducts, and increases in surrender levels arising from interest rate rises, could have a material impact on its businesses or results of operations.

Jackson also writes a significant amount of variable annuities that offer capital or income protection guarantees. The value of these guarantees is affected by market factors (such as interest rates, equity values, bond spreads and realised volatility) and policyholder behaviour. Jackson manages its exposure to market risks arising on these guarantees by using a derivative hedging programme. However, there could be market circumstances where the derivatives that Jackson enters into to hedge its market risks may not fully cover its exposures under the guarantees. The cost of the guarantees that remain unhedged will also affect Prudential's results.

In addition, Jackson hedges the guarantees on its variable annuity book on an economic basis (with consideration of the local regulatory position) and, thus, accepts variability in its accounting results in the short term in order to achieve the appropriate result on these bases. In particular, for Prudential's Group IFRS reporting, the measurement of the Jackson variable annuity guarantees is typically less sensitive to market movements than for the corresponding hedging derivatives, which are held at market value. However, depending on the level of hedging conducted regarding a particular risk type, certain market movements can drive volatility in the economic or local regulatory results that may be less significant under IFRS reporting.

A significant part of the profit from Prudential's UK insurance operations is related to bonuses for policyholders declared on with-profits products, which are broadly based on historical and current rates of return on equity, real estate and fixed income securities, as well as Prudential's expectations of future investment returns. This profit could be lower in a sustained low interest rate environment.

Prudential is subject to the risk of potential sovereign debt credit deterioration owing to the amounts of sovereign debt obligations held in its investment portfolio

Investing in sovereign debt creates exposure to the direct or indirect consequences of political, social or economic changes (including changes in governments, heads of state or monarchs) in the countries in which the issuers are located and the creditworthiness of the sovereign. Investment in sovereign debt obligations involves risks not present in debt obligations of corporate issuers. In addition, the issuer of the debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or pay interest when due in accordance with the terms of such debt, and Prudential may have limited recourse to compel payment in the event of a default. A sovereign debtor's willingness or ability to repay principal and to pay interest in a timely manner may be affected by, among other factors, its cash flow situation, its relations with its central bank, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the sovereign debtor's policy toward local and international lenders, and the political constraints to which the sovereign debtor may be subject.

Moreover, governments may use a variety of techniques, such as intervention by their central banks or imposition of regulatory controls or taxes, to devalue their currencies' exchange rates, or may adopt monetary and other policies (including to manage their debt burdens) that have a similar effect, all of which could adversely impact the value of an investment in sovereign debt even in the absence of a technical default. Periods of economic uncertainty may affect the volatility of market prices of sovereign debt to a greater extent than the volatility inherent in debt obligations of other types of issuers.

In addition, if a sovereign default or other such events described above were to occur, other financial institutions may also suffer losses or experience solvency or other concerns, and Prudential might face additional risks relating to any debt of such financial institutions held in its investment portfolio. There is also risk that public perceptions about the stability and creditworthiness of financial institutions and the financial sector generally might be affected, as might counterparty relationships between financial institutions. If a sovereign were to default on its obligations, or adopted policies that devalued or otherwise altered the currencies in which its obligations were denominated this could have a material adverse effect on Prudential's financial condition and results of operations.

Prudential is subject to the risk of exchange rate fluctuations owing to the geographical diversity of its businesses

Due to the geographical diversity of Prudential's businesses, Prudential is subject to the risk of exchange rate fluctuations. Prudential's operations in the US and Asia, which represent a significant proportion of operating profit based on longer-term investment returns and shareholders' funds, generally write policies and invest in assets denominated in local currencies. Although this practice limits the effect of exchange rate fluctuations on local operating results, it can lead to significant fluctuations in Prudential's consolidated financial statements upon the translation of results into pounds sterling. This exposure is not currently separately managed. The currency exposure relating to the translation of reported earnings could impact on financial reporting ratios such as dividend cover, which is calculated as operating profit after tax on an IFRS basis, divided by the dividends relating to the reporting year. The impact of gains or losses on currency translations is recorded as a component of shareholders' funds within other comprehensive income. Consequently, this could impact on Prudential's gearing ratios (defined as debt over debt plus shareholders' funds). The Group's surplus capital position for regulatory reporting purposes may also be affected by fluctuations in exchange rates with possible consequences for the degree of flexibility that Prudential has in managing its business.

Prudential conducts its businesses subject to regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations and any accounting standards in the markets in which it operates

Changes in government policy and legislation (including in relation to tax and capital controls), regulation or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which Prudential operates, and decisions taken by regulators in connection with their supervision of members of the Group, which in some circumstances may be applied retrospectively, may adversely affect Prudential's product range, distribution channels, competitiveness, profitability, capital requirements, risk management approaches, corporate or governance structure and, consequently, reported results and financing requirements. Also, regulators in jurisdictions in which Prudential operates may impose requirements affecting the allocation of capital and liquidity between different business units in the Group, whether on a geographic, legal entity, product line or other basis. Regulators may change the level of capital required to be held by individual businesses or could introduce possible changes in the regulatory framework for pension arrangements and policies, the regulation of selling practices and solvency requirements. In addition, there could be changes to the maximum level of non-domestic ownership by foreign companies in certain jurisdictions. Furthermore, as a result of interventions by governments in response to recent financial and global economic conditions, it is widely expected that there will continue to be a substantial increase in government regulation and supervision of the financial services industry, including the possibility of higher capital requirements, restrictions on certain types of transactions and enhanced supervisory powers.

The European Union's Solvency II Directive came into effect on 1 January 2016. This measure of regulatory capital is more volatile than under the previous Solvency I regime and regulatory policy may evolve under the new regime. The European Commission has in late 2016 begun a review of some aspects of the Solvency II legislation, which is expected to continue until 2021 and covers, among other things, a review of the Long Term Guarantee measures. Prudential applied for, and has been granted approval by the UK Prudential Regulation Authority to use the following measures when calculating its Solvency II capital requirements: the use of an internal model, the 'matching adjustment' for UK annuities, the 'volatility adjustment' for selected US dollar-denominated business, and UK transitional measures. Prudential also has permission to use 'deduction and aggregation' as the method by which the contribution of the Group's US insurance entities to the Group's solvency is calculated, which in effect recognises surplus in US insurance entities in excess of 250 per cent of local US Risk Based Capital requirements. There is a risk that in the future changes are required to be made to the approved internal model and these related applications which could have a material impact on the Group Solvency II capital position. Where internal model changes are subject to regulatory approval, there is a risk that the approval is delayed or not given. In such circumstances, changes in our risk profile would not be able to be appropriately reflected in our internal model, which could have a material impact on the Group's Solvency II capital position. The UK's decision to leave the EU could result in significant changes to the regulatory regime under which the Group operates.

Currently there are also a number of other global regulatory developments which could impact the way in which Prudential is supervised in its many jurisdictions. These include the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) in the US, the work of the Financial Stability Board (FSB) on Global Systemically Important Insurers (G-SIIs) and the proposed amendments to Markets in Financial Instruments Directive (the 'MiFID2 Directive') in the EU.

In addition, regulators in a number of jurisdictions in which the Group operates are further developing local capital regimes; this includes potential future developments in Solvency II in the UK (as referred to above), National Association of Insurance Commissioners' reforms in the US, and amendments to certain local statutory regimes in some territories in Asia. These changes and their potential impact on the Group remain uncertain.

The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the US including reforms to financial services entities, products and markets. The full impact of the Dodd-Frank Act on Prudential's businesses remains unclear, as many of its provisions are primarily focused on the banking industry, have a delayed effectiveness and/or require rule making or other actions by various US regulators over the coming years. There is also uncertainty surrounding future changes to the Dodd-Frank Act.

Prudential's designation as a G-SII was reaffirmed on 21 November 2016. As a result of this designation, Prudential is subject to additional regulatory requirements, including a requirement to submit enhanced risk management plans (such as a Group-wide Recovery Plan, a Systemic Risk Management Plan and a Liquidity Risk Management Plan) to a Crisis Management Group (CMG) comprised of an international panel of regulators.

The G-SII regime also introduces capital requirements in the form of a Higher Loss Absorption (HLA) requirement. While this requirement was initially intended to come into force in 2019, this has now been postponed to 2022. The HLA is also now intended to be based on the Insurance Capital Standard (ICS). This is being developed by the IAIS as the Pillar 1 capital requirement under ComFrame to be applied for Internationally Active Insurance Groups (IAIGs), with a target to finalise a version for implementation in 2019. (ComFrame will more generally establish a set of common principles and standards designed to assist regulators in addressing risks that arise from insurance groups with operations in multiple jurisdictions.)

Various jurisdictions in which Prudential operates have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of a market participant. As a major participant in the majority of its chosen markets, circumstances could arise where Prudential, along with other companies, may be required to make such contributions.

The Group's accounts are prepared in accordance with current International Financial Reporting Standards (IFRS) applicable to the insurance industry. The International Accounting Standards Board (IASB) introduced a framework that it described as Phase I which, under its standard IFRS 4 permitted insurers to continue to use the statutory basis of accounting for insurance assets and liabilities that existed in their jurisdictions prior to January 2005. In May 2017, the IASB published its replacement standard on insurance accounting (IFRS 17, 'Insurance Contracts'), which will have the effect of introducing fundamental changes to the statutory reporting of insurance entities that prepare accounts according to IFRS from 2021. The European Union will apply its usual process for assessing whether the standard meets the necessary criteria for endorsement. With the publication of IFRS 17, the Group is familiarising itself with the complex requirements of this standard and considering its potential impact. The effect of changes required to the Group's accounting policies as a result of implementing the new standard is currently uncertain, but these changes can be expected to, among other things, alter the timing of IFRS profit recognition.

Any changes or modification of IFRS accounting policies may require a change in the way in which future results will be determined and/or a retrospective adjustment of reported results to ensure consistency.

The resolution of several issues affecting the financial services industry could have a negative impact on Prudential's reported results or on its relations with current and potential customers

Prudential is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business, both in the UK and internationally. This risk could arise from the application of current regulations or the failure to implement new regulations. These actions could involve a review of types of business sold in the past under acceptable market practices at the time, such as the requirement in the UK to provide redress to certain past purchasers of pensions and mortgage endowment policies, changes to the tax regime affecting products, and regulatory reviews on products sold and industry practices, including, in the latter case, lines of business it has closed. Current regulatory actions include the UK business's undertaking to the Financial Conduct Authority to review annuities sold without advice after 1 July 2008 to its contract-based defined contribution pension customers and potentially provide redress to certain such customers.

Regulators' interest may also include the approach that product providers use to select third-party distributors and to monitor the appropriateness of sales made by them. In some cases, product providers can be held responsible for the deficiencies of third-party distributors.

In the US, there has been significant attention on the different regulatory standards applied to investment advice delivered to retail customers by different sectors of the industry. As a result of reports relating to perceptions of industry abuses, there have been numerous regulatory inquiries and proposals for legislative and regulatory reforms. This includes focus on the suitability of sales of certain products, alternative investments and the widening of the circumstances under which a person or entity providing investment advice with respect to certain employee benefit and pension plans would be considered a fiduciary (subjecting the person or entity to certain regulatory requirements, such as those adopted by the US Department of Labor issued in April 2016 which is likely to cause market disruption in the shorter term).

Risk factors
Continued

There is a risk that new regulations introduced may have a material adverse effect on the sales of the products by Prudential and increase Prudential's exposure to legal risks.

In Asia, regulatory regimes are developing at different speeds, driven by a combination of global factors and local considerations. New requirements could be introduced in these and other regulatory regimes that challenge legal structures, current sales practices, or could retrospectively be applied to sales made prior to their introduction, which could have a negative impact on Prudential's business or reported results.

Litigation, disputes and regulatory investigations may adversely affect Prudential's profitability and financial condition

Prudential is, and may be in the future, subject to legal actions, disputes and regulatory investigations in various contexts, including in the ordinary course of its insurance, investment management and other business operations. These legal actions, disputes and investigations may relate to aspects of Prudential's businesses and operations that are specific to Prudential, or that are common to companies that operate in Prudential's markets. Legal actions and disputes may arise under contracts, regulations (including tax) or from a course of conduct taken by Prudential, and may be class actions. Although Prudential believes that it has adequately provided in all material aspects for the costs of litigation and regulatory matters, no assurance can be provided that such provisions are sufficient. Given the large or indeterminate amounts of damages sometimes sought, other sanctions that might be applicable and the inherent unpredictability of litigation and disputes, it is possible that an adverse outcome could, from time to time, have an adverse effect on Prudential's reputation, results of operations or cash flows.

Prudential's businesses are conducted in highly competitive environments with developing demographic trends and continued profitability depends upon management's ability to respond to these pressures and trends

The markets for financial services in the UK, US and Asia are highly competitive, with several factors affecting Prudential's ability to sell its products and continued profitability, including price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, investment management performance, historical bonus levels, the ability to respond to developing demographic trends and customer appetite for certain savings products. In some of its markets, Prudential faces competitors that are larger, have greater financial resources or a greater market share, offer a broader range of products or have higher bonus rates. Further, heightened competition for talented and skilled employees and agents with local experience, particularly in Asia, may limit Prudential's potential to grow its business as quickly as planned.

In Asia, the Group's principal competitors in the region are international financial companies, including global life insurers such as Allianz, AXA, AIA and Manulife, and multinational asset managers such as J.P. Morgan Asset Management, Schroders, HSBC Global Asset Management and Franklin Templeton. In a number of markets, local companies have a very significant market presence.

Within the UK, Prudential's principal competitors include many of the major retail financial services companies and fund management companies including, in particular, Aviva, Legal & General, Standard Life, Schroders, Invesco Perpetual and Fidelity.

Jackson's competitors in the US include major stock and mutual insurance companies, mutual fund organisations, banks and other financial services companies such as AIG, AXA Financial Inc., Allianz, Prudential Financial, MetLife and Aegon.

Prudential believes competition will intensify across all regions in response to consumer demand, technological advances, the impact of consolidation, regulatory actions and other factors. Prudential's ability to generate an appropriate return depends significantly upon its capacity to anticipate and respond appropriately to these competitive pressures.

Downgrades in Prudential's financial strength and credit ratings could significantly impact its competitive position and damage its relationships with creditors or trading counterparties

Prudential's financial strength and credit ratings, which are used by the market to measure its ability to meet policyholder obligations, are an important factor affecting public confidence in Prudential's products, and as a result its competitiveness. Downgrades in Prudential's ratings, as a result of, for example, decreased profitability, increased costs, increased indebtedness or other concerns, could have an adverse effect on its ability to market products; retain current policyholders; and on the Group's financial flexibility. In addition, the interest rates Prudential pays on its borrowings are affected by its credit ratings, which are in place to measure the Group's ability to meet its contractual obligations.

Prudential plc's long-term senior debt is rated as A2 by Moody's, A+ by Standard & Poor's and A by Fitch. These ratings are all on a stable outlook.

Prudential plc's short-term debt is rated as P-1 by Moody's, A-1 by Standard & Poor's and F1 by Fitch.

The Prudential Assurance Company Limited's financial strength is rated Aa3 by Moody's, AA by Standard & Poor's and AA by Fitch. These ratings are all on a stable outlook.

Jackson's financial strength is rated AA by Standard & Poor's and Fitch, A1 by Moody's and A+ by AM Best. These ratings have a stable outlook.

Prudential Assurance Co. Singapore (Pte) Ltd's financial strength is rated AA by Standard & Poor's. This rating is on a stable outlook.

In addition, changes in methodologies and criteria used by rating agencies could result in downgrades that do not reflect changes in the general economic conditions or Prudential's financial condition.

Adverse experience in the operational risks inherent in Prudential's business could disrupt its business functions and have a negative impact on its results of operations

Operational risks are present in all of Prudential's businesses, including the risk (from both Prudential and its outsourcing partners) of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from external events. Prudential's business is dependent on processing a large number of transactions across numerous and diverse products, and is subject to a range of evolving legal and regulatory regimes. In addition, Prudential also employs a large number of models and user-developed applications in its processes. Further, because of the long-term nature of much of the Group's business, accurate records have to be maintained for significant periods.

These factors, among others, result in significant reliance on and require significant investment in information technology (IT), compliance and other operational systems, personnel and processes, requiring a number of change initiatives to be established across Prudential that may have material financial and reputational implications if such initiatives fail (either wholly or in part) to meet their objectives. In addition, Prudential outsources several operations, including a significant part of its UK back office and customer-facing functions as well as a number of IT functions, resulting in reliance upon the operational processing performance of its outsourcing partners.

Although Prudential's IT, compliance and other operational systems, models and processes incorporate controls designed to manage and mitigate the operational and model risks associated with its activities, there can be no assurance that such controls will always be effective.

Due to human error among other reasons, operational and model risk incidents do happen periodically and no system or process can entirely prevent them although there have not been any material events to date. Prudential's legacy and other IT systems and processes, as with operational systems and processes generally, may be susceptible to failure or security breaches.

Such events could, among other things, harm Prudential's ability to perform necessary business functions, result in the loss of confidential or proprietary data (exposing it to potential legal claims and regulatory sanctions) and damage its reputation and relationships with its customers and business partners. Similarly, any weakness in administration systems (such as those relating to policyholder records or meeting regulatory requirements) or actuarial reserving processes could have a material adverse effect on its results of operations during the effective period.

Attempts by third parties to disrupt Prudential's IT systems could result in loss of trust from Prudential's customers, reputational damage and financial loss

Prudential and its business partners are increasingly exposed to the risk that third parties may attempt to disrupt the availability, confidentiality and integrity of its IT systems, which could result in disruption to the key operations, make it difficult to recover critical services, damage assets and compromise the integrity and security of data (both corporate and customer). This could result in loss of trust from Prudential's customers, reputational damage and direct or indirect financial loss. The cyber-security threat continues to evolve globally in sophistication and potential significance. Prudential's increasing market profile, growing customer interest in interacting with their insurance providers and asset managers through the internet and social media, improved brand awareness and the classification of Prudential as a G-SII could also increase the likelihood of Prudential being considered a target by cyber criminals. Further, there have been recent changes to the threat landscape and the risk from untargeted but sophisticated and automated attacks has increased.

Developments in data protection worldwide (such as the EU General Data Protection Regulation that is expected to come into force in 2018) may also increase the financial and reputational implications for Prudential following a significant breach of its IT systems. To date, Prudential has not identified a failure or breach which has had a material impact in relation to its legacy and other IT systems and processes. However, it has been, and likely will continue to be, subject to potential damage from computer viruses, attempts at unauthorised access and cyber-security attacks such as 'denial of service' attacks (which, for example, can cause temporary disruption to websites and IT networks), phishing and disruptive software campaigns.

Prudential is continually enhancing its IT environment to remain secure against emerging threats, together with increasing its ability to detect system compromise and recover should such an incident occur. However, there can be no assurance that such events will not take place which may have material adverse consequential effects on Prudential's business and financial position.

Adverse experience relative to the assumptions used in pricing products and reporting business results could significantly affect Prudential's results of operations

In common with other life insurers, the profitability of the Group's businesses depends on a mix of factors including mortality and morbidity levels and trends, policy surrenders and take-up rates on guarantee features of products, investment performance and impairments, unit cost of administration and new business acquisition expenses.

Prudential needs to make assumptions about a number of factors in determining the pricing of its products, for setting reserves, and for reporting its capital levels and the results of its long-term business operations. For example, the assumption that Prudential makes about future expected levels of mortality is particularly relevant for its UK annuity business, where payments are guaranteed for at least as long as the policyholder is alive.

Prudential conducts rigorous research into longevity risk, using industry data as well as its own substantial annuitant experience. As part of its pension annuity pricing and reserving policy, Prudential's UK business assumes that current rates of mortality continuously improve over time at levels based on adjusted data and informed by models from the Continuous Mortality Investigation (CMI) as published by the Institute and Faculty of Actuaries. Assumptions about future expected levels of mortality are also of relevance to the Guaranteed Minimum Withdrawal Benefit (GMWB) of Jackson's variable annuity business. If mortality improvement rates significantly exceed the improvement assumed, Prudential's results of operations could be adversely affected.

A further factor is the assumption that Prudential makes about future expected levels of the rates of early termination of products by its customers (known as persistency). This is relevant to a number of lines of business in the Group, especially for Jackson's portfolio of variable annuities. Prudential's persistency assumptions reflect a combination of recent past experience for each relevant line of business and expert judgement, especially where a lack of relevant and credible experience data exists. Any expected change in future persistency is also reflected in the assumption. If actual levels of future persistency are significantly different than assumed, the Group's results of operations could be adversely affected. Furthermore, Jackson's variable annuity products are sensitive to other types of policyholder behaviour, such as the take-up of its GMWB product features.

Another example is the impact of epidemics and other effects that give rise to a large number of deaths or additional sickness claims. Significant influenza epidemics have occurred a number of times over the past century but the likelihood, timing, or the severity of future epidemics cannot be predicted. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of any epidemics could have a material impact on the Group's loss experience.

As a holding company, Prudential is dependent upon its subsidiaries to cover operating expenses and dividend payments

The Group's insurance and investment management operations are generally conducted through direct and indirect subsidiaries, which are subject to the risks discussed elsewhere in this Risk factors section.

As a holding company, Prudential's principal sources of funds are remittances from subsidiaries, shareholder-backed funds, the shareholder transfer from long-term funds and any amounts that may be raised through the issuance of equity, debt and commercial paper.

Certain of Prudential's subsidiaries are restricted by applicable insurance, foreign exchange and tax laws, rules and regulations that can limit remittances. In some circumstances, this could limit Prudential's ability to pay dividends to shareholders or to make available funds held in certain subsidiaries to cover operating expenses of other members of the Group.

Prudential operates in a number of markets through joint ventures and other arrangements with third parties, involving certain risks that Prudential does not face with respect to its consolidated subsidiaries

Prudential operates, and in certain markets is required by local regulation to operate, through joint ventures and other similar arrangements. For such Group operations, management control is exercised in conjunction with other participants. The level of control exercisable by the Group depends on the terms of the contractual agreements, in particular, the allocation of control among, and continued cooperation between, the participants. Prudential may face financial, reputational and other exposure (including regulatory censure) in the event that any of its partners fails to meet its obligations under the arrangements, encounters financial difficulty, or fails to comply with local or international regulation and standards such as those pertaining to the prevention of financial crime. In addition, a significant proportion of the Group's product distribution is carried out through arrangements with third parties not controlled by Prudential and is therefore dependent upon continuation of these relationships. A temporary or permanent disruption to these distribution arrangements, such as through significant deterioration in the reputation, financial position or other circumstances of the third party or material failure in controls (such as those pertaining to the prevention of financial crime) could adversely affect the results of operations of Prudential.

Prudential's Articles of Association contain an exclusive jurisdiction provision

Under Prudential's Articles of Association, certain legal proceedings may only be brought in the courts of England and Wales. This applies to legal proceedings by a shareholder (in its capacity as such) against Prudential and/or its Directors and/or its professional service providers. It also applies to legal proceedings between Prudential and its Directors and/or Prudential and Prudential's professional service providers that arise in connection with legal proceedings between the shareholder and such professional service provider. This provision could make it difficult for US and other non-UK shareholders to enforce their shareholder rights.

Changes in tax legislation may result in adverse tax consequences

Tax rules, including those relating to the insurance industry, and their interpretation may change, possibly with retrospective effect, in any of the jurisdictions in which Prudential operates. Significant tax disputes with tax authorities, and any change in the tax status of any member of the Group or in taxation legislation or its scope or interpretation could affect Prudential's financial condition and results of operations.

Corporate governance

Hong Kong listing obligations

The Directors confirm that the Company has complied with all relevant provisions set out in the Corporate Governance Code issued by The Stock Exchange of Hong Kong Limited ('HK Code') throughout the accounting period. With respect to the Code Provision B.1.2(d) of the HK Code, the responsibilities of the Remuneration Committee do not include making recommendations to the Board on the remuneration of Non-executive Directors. In line with the principles of the UK Corporate Governance Code, fees for the Non-executive Directors are determined by the Board.

The Directors also confirm that the financial results contained in this document have been reviewed by the Group Audit Committee.

The Company has adopted securities dealing rules relating to transactions in Prudential securities by Directors on terms no less exacting than those required by Appendix 10 to the Hong Kong Listing Rules. The Directors of the Company have complied with this code of conduct throughout the accounting period.

Going concern

In accordance with the requirements of the guidance issued by the Financial Reporting Council in September 2014 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting', after making sufficient enquiries the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue their operations for a period of at least 12 months from the date that the financial statements are approved.

In support of this expectation, an update of the Company's business activities, together with the factors likely to affect its future development, successful performance and position in the current economic climate are set out in the business performance section. The risks facing the Group's liquidity and capital positions and their sensitivities are referred to in the 'Chief Financial Officer's report on the 2017 first half financial performance', the 'Group Chief Risk Officer's report of the risks facing our business and how these are managed' and note II (c) 'Solvency II capital at 30 June 2017' within Additional Financial Information. The Group's IFRS financial statements include cash flow details in the 'Condensed consolidated statement of cash flows' and borrowings information in note C6.

The Directors therefore consider it appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements for the period ended 30 June 2017.

Disclosure of interests of Directors

Outstanding share options

The following table sets out the share options held by the Directors in the UK Savings-Related Share Option Scheme (SAYE) as at the end of the period.

				Exercise period		Number of options						
	Date of grant	Exercise price (pence)	Market price at 30 June 2017 (pence)	Beginning	End	Beginning of period	Granted	Exercised	Cancelled	Forfeited	Lapsed	End of period
John Foley	23 Sep 14	1,155	1,761	01 Dec 17	31 May 18	779	–	–	–	–	–	779
John Foley	21 Sep 16	1,104	1,761	01 Dec 19	31 May 20	815	–	–	–	–	–	815
Penny James	22 Sep 15	1,111	1,761	01 Dec 18	31 May 19	1,620	–	–	–	–	–	1,620
Nic Nicandrou	23 Sep 14	1,155	1,761	01 Dec 19	31 May 20	1,311	–	–	–	–	–	1,311
Nic Nicandrou	21 Sep 16	1,104	1,761	01 Dec 21	31 May 22	1,358	–	–	–	–	–	1,358
Anne Richards	21 Sep 16	1,104	1,761	01 Dec 19	31 May 20	1,630	–	–	–	–	–	1,630
Mike Wells	22 Sep 15	1,111	1,761	01 Dec 18	31 May 19	1,620	–	–	–	–	–	1,620

Buy-out award

Details of the outstanding buy-out award made to Anne Richards in order to facilitate her appointment as Chief Executive, M&G, in 2016 and pursuant to rule 9.4.2 of the UK LA Listing Rules are set out below. This award, which could not be granted under any of the Company's existing incentive plans, entitles Anne Richards to receive a cash amount equal to the market value of the specified notional number of Prudential plc shares on the date of exercise, less an award price of 5 pence per share. The award will vest on the dates detailed below. During the reporting period no award was exercised by Anne Richards. The market value of Prudential plc shares on the date of the award (23 June 2016) was £13.22. Anne Richards is the sole participant in this arrangement and no further awards will be made to Anne Richards under the arrangement.

Exercise period	Number of notional shares
1 December 2017 to 1 January 2018	39,810
1 December 2018 to 1 January 2019	25,078
1 December 2019 to 1 January 2020	25,078
1 December 2020 to 1 January 2021	13,426

Directors' shareholdings and substantial shareholdings

The Company and its Directors, Chief Executives and shareholders have been granted a partial exemption from the disclosure requirements under Part XV of the Securities and Futures Ordinance (SFO). As a result of this exemption, Directors, Chief Executives and shareholders do not have an obligation under the SFO to notify the Company of shareholding interests, and the Company is not required to maintain a register of Directors' and Chief Executives' interests under section 352 of the SFO, nor a register of interests of substantial shareholders under section 336 of the SFO. The Company is, however, required to file with the Stock Exchange of Hong Kong Limited any disclosure of interests notified to it in the United Kingdom.

The following table sets out the interests of Directors, including the interests of persons connected with Directors as at the end of the period. This includes shares acquired under the Share Incentive Plan and deferred annual bonus awards as detailed in the table on 'Other share awards' on page 163.

	01 Jan 2017	30 Jun 2017		
	Total beneficial interest (number of shares)	**Total beneficial interest** (number of shares)	**Number of shares subject to performance conditions**	**Total interest in shares**
Chairman				
Paul Manduca	42,500	42,500	–	42,500
Executive Directors				
John Foley	249,965	248,865	381,325	630,190
Penny James	41,572	75,561	236,049	311,610
Nic Nicandrou	304,138	291,450	349,310	640,760
Anne Richards	31,439	64,677	153,367	218,044
Barry Stowe[1]	265,878	280,030	686,398	966,428
Mike Wells[2]	544,534	660,199	835,625	1,495,824
Tony Wilkey	120,528	74,419	454,170	528,589
Non-executive Directors				
Howard Davies	9,049	9,204	–	9,204
Ann Godbehere[3]	15,914	n/a	n/a	n/a
David Law	6,904	6,904	–	6,904
Kaikhushru Nargolwala	70,000	70,000	–	70,000
Anthony Nightingale	30,000	30,000	–	30,000
Philip Remnant	6,916	6,916	–	6,916
Alice Schroeder[4]	8,500	8,500	–	8,500
Lord Turner	5,500	6,500	–	6,500

Notes

1 For the 1 January 2017 figure Barry Stowe's beneficial interest in shares is made up of 132,939 ADRs (representing 265,878 ordinary shares), (8,513.73 of these ADRs are held within an investment account which secures premium financing for a life assurance policy). For the 30 June 2017 figure the beneficial interest in shares is made up of 140,015 ADRs (representing 280,030 ordinary shares).

2 For the 1 January 2017 figure Mike Wells' beneficial interest in shares is made up of 218,576 ADRs (representing 437,152 ordinary shares) and 107,382 ordinary shares. For the 30 June 2017 figure his beneficial interest in shares is made up of 248,291 ADRs (representing 496,582 ordinary shares) and 163,617 ordinary shares.

3 Ann Godbehere stepped down from the Board on 18 May 2017.

4 Alice Schroeder's beneficial interest in shares is made up of 4,250 ADRs (representing 8,500 ordinary shares).

Disclosure of interests of Directors
Continued

Directors' outstanding long-term incentive awards
Share-based long-term incentive awards

	Plan name	Year of award	Conditional share awards outstanding at 1 Jan 2017 (number of shares)	Conditional awards in 2017 (number of shares)	Market price at date of award (pence)	Dividend equivalents on vested shares (note 3) (number of shares released)	Rights exercised in 2017	Rights lapsed in 2017	Conditional share awards outstanding at 30 Jun 2017 (number of shares)	Date of end of performance period
John Foley	PLTIP	2014	125,776		1,317	7,972	89,093	36,683	–	31 Dec 16
	PLTIP	2014	29,556		1,342	1,872	20,935	8,621	–	31 Dec 16
	PLTIP	2015	122,808		1,672				122,808	31 Dec 17
	PLTIP	2016	144,340		1,279				144,340	31 Dec 18
	PLTIP	2017		114,177	1,672				114,177	31 Dec 19
			422,480	114,177		9,844	110,028	45,304	381,325	
Penny James	PLTIP	2014	30,279		1,317	1,918	21,446	8,833	–	31 Dec 16
	PLTIP	2015	24,348		1,672				24,348	31 Dec 17
	PLTIP	2016	116,628		1,279				116,628	31 Dec 18
	PLTIP	2017		95,073	1,672				95,073	31 Dec 19
			171,255	95,073		1,918	21,446	8,833	236,049	
Nic Nicandrou	PLTIP	2014	132,375		1,317	8,390	93,768	38,607	–	31 Dec 16
	PLTIP	2015	104,117		1,672				104,117	31 Dec 17
	PLTIP	2016	136,836		1,279				136,836	31 Dec 18
	PLTIP	2017		108,357	1,672				108,357	31 Dec 19
			373,328	108,357		8,390	93,768	38,607	349,310	
Anne Richards	PLTIP	2016	45,906		1,358.5				45,906	31 Dec 18
	PLTIP	2017		107,461	1,672				107,461	31 Dec 19
			45,906	107,461		–	–	–	153,367	
Barry Stowe[1]	PLTIP	2014	114,824		1,317	7,034	78,462	36,362	–	31 Dec 16
	PLTIP	2015	113,940		1,672				113,940	31 Dec 17
	PLTIP	2015	50,668		1,611.5				50,668	31 Dec 17
	PLTIP	2016	274,100		1,279				274,100	31 Dec 18
	PLTIP	2017		247,690	1,672				247,690	31 Dec 19
			553,532	247,690		7,034	78,462	36,362	686,398	
Mike Wells[2]	PLTIP	2014	238,954		1,317	15,178	169,262	69,692	–	31 Dec 16
	PLTIP	2015	209,222		1,672				209,222	31 Dec 17
	PLTIP	2015	30,132		1,611.5				30,132	31 Dec 17
	PLTIP	2016	332,870		1,279				332,870	31 Dec 18
	PLTIP	2017		263,401	1,672				263,401	31 Dec 19
			811,178	263,401		15,178	169,262	69,692	835,625	
Tony Wilkey[4]	PLTIP	2014	22,935		1,317	1,401	15,671	7,264	–	31 Dec 16
	PCA LTIP	2014	45,870		1,317		45,870		–	31 Dec 16
	PCA LTIP	2014	68,806		1,317				68,806	31 Dec 17
	PLTIP	2015	21,091		1,672				21,091	31 Dec 17
	PCA LTIP	2015	42,183		1,672				42,183	31 Dec 17
	PLTIP	2015	29,008		1,611.5				29,008	31 Dec 17
	PLTIP	2016	153,742		1,279				153,742	31 Dec 18
	PLTIP	2017		139,340	1,672				139,340	31 Dec 19
			383,635	139,340		1,401	61,541	7,264	454,170	

Notes

1. The awards for Barry Stowe were made in ADRs (1 ADR = 2 ordinary shares). The figures in the table are represented in terms of ordinary shares.
2. The awards in 2014 and 2015 for Mike Wells were made in ADRs (1 ADR = 2 ordinary shares). The awards in 2016 and 2017 were made in ordinary shares. The figures in the table are represented in terms of ordinary shares.
3. A dividend equivalent was accumulated on these awards.
4. The PCA LTIP is an arrangement for executives and senior management of PCA. Tony Wilkey was a participant of this plan until his appointment to the Board on 1 June 2015 and has not been eligible to new awards since this date. The column above marked 'Date of end of performance period' for the PCA LTIP reflects the end of the vesting period as there are no performance conditions on these awards.

Other share awards

The table below sets out Executive Directors' deferred bonus share awards.

	Year of grant	Conditional share awards outstanding at 1 Jan 2017 (number of shares)	Conditionally awarded in 2017 (number of shares)	Dividends accumulated in 2017 (note 5) (number of shares)	Shares released in 2017 (number of shares)	Conditional share awards outstanding at 30 Jun 2017 (number of shares)	Date of end of restricted period	Date of release	Market price at date of award (pence)	Market price at date of vesting or release (pence)
John Foley										
Deferred 2013 annual incentive award	2014	33,968			33,968	–	31 Dec 16	03 Apr 17	1,317	1,653
Deferred 2014 annual incentive award	2015	43,651		762		44,413	31 Dec 17		1,672	
Deferred 2015 annual incentive award	2016	65,713		1,148		66,861	31 Dec 18		1,279	
Deferred 2016 annual incentive award	2017		30,352	530		30,882	31 Dec 19		1,672	
		143,332	30,352	2,440	33,968	142,156				
Penny James[1]										
Deferred 2013 Group deferred bonus plan award	2014	5,064			5,064	–	31 Dec 16	03 Apr 17	1,317	1,653
Deferred 2014 Group deferred bonus plan award	2015	4,091		71		4,162	31 Dec 17		1,672	
Deferred 2015 annual incentive award	2016	13,791		240		14,031	31 Dec 18		1,279	
Deferred 2016 annual incentive award	2017		22,966	401		23,367	31 Dec 19		1,672	
		22,946	22,966	712	5,064	41,560				
Nic Nicandrou										
Deferred 2013 annual incentive award	2014	38,024			38,024	–	31 Dec 16	03 Apr 17	1,317	1,653
Deferred 2014 annual incentive award	2015	29,887		522		30,409	31 Dec 17		1,672	
Deferred 2015 annual incentive award	2016	39,107		683		39,790	31 Dec 18		1,279	
Deferred 2016 annual incentive award	2017		29,504	515		30,019	31 Dec 19		1,672	
		107,018	29,504	1,720	38,024	100,218				
Anne Richards										
Deferred 2016 annual incentive award	2017		32,668	570		33,238	31 Dec 19		1,672	
			32,668	570		33,238				
Barry Stowe[2]										
Deferred 2013 annual incentive award	2014	32,950			32,950	–	31 Dec 16	03 Apr 17	1,317	1,653
Deferred 2014 annual incentive award	2015	29,046		510		29,556	31 Dec 17		1,672	
Deferred 2015 annual incentive award	2016	111,618		1,960		113,578	31 Dec 18		1,279	
Deferred 2016 annual incentive award	2017		134,534	2,362		136,896	31 Dec 19		1,672	
		173,614	134,534	4,832	32,950	280,030				

Disclosure of interests of Directors
Continued

	Year of grant	Conditional share awards outstanding at 1 Jan 2017 (number of shares)	Conditionally awarded in 2017 (number of shares)	Dividends accumulated in 2017 (note 5) (number of shares)	Shares released in 2017 (number of shares)	Conditional share awards outstanding at 30 Jun 2017 (number of shares)	Date of end of restricted period	Date of release	Market price at date of award (pence)	Market price at date of vesting or release (pence)
Mike Wells[3]										
Deferred 2013 annual incentive award	2014	108,578			108,578	–	31 Dec 16	03 Apr 17	1,317	1,653
Deferred 2014 annual incentive award	2015	120,686		2,120		122,806	31 Dec 17		1,672	
Deferred 2015 annual incentive award	2016	107,112		1,871		108,983	31 Dec 18		1,279	
Deferred 2016 annual incentive award	2017		51,371	897		52,268	31 Dec 19		1,672	
		336,376	51,371	4,888	108,578	284,057				
Tony Wilkey[4]										
Deferred 2014 PCA deferred bonus plan award	2015	84,595			84,595	–	31 Dec 16	03 Apr 17	1,672	1,653
Deferred 2015 annual incentive award	2016	35,933		627		36,560	31 Dec 18		1,279	
Deferred 2016 annual incentive award	2017		37,209	650		37,859	31 Dec 19		1,672	
		120,528	37,209	1,277	84,595	74,419				

Notes

1 The Group deferred bonus plan is an arrangement for executives and senior management. Penny James was granted awards under this plan in 2014 and 2015 prior to her appointment to the Board on 1 September 2015 and has not been eligible for new awards under the Group deferred bonus plan from this date.
2 The awards for Barry Stowe were made in ADRs (1 ADR = 2 ordinary shares). The figures in the table are represented in terms of ordinary shares.
3 The awards for Mike Wells in 2014 and 2015 were made in ADRs (1 ADR = 2 ordinary shares). The awards made in 2016 and 2017 were made in ordinary shares. The figures in the table are represented in terms of ordinary shares.
4 The PCA deferred bonus plan is an arrangement for executives and senior management of PCA. Tony Wilkey was granted awards under this plan in 2015 prior to his appointment to the Board on 1 June 2015 and has not been eligible for new awards under the PCA deferred bonus plan from this date.
5 A dividend equivalent was accumulated on these awards.

All-employee share plans

It is important that all employees are offered the opportunity to own shares in Prudential, connecting them both to the success of the Company and to the interests of other shareholders. Executive Directors are invited to participate in these plans on the same basis as other staff in their location.

Save As You Earn (SAYE) schemes

UK-based Executive Directors are eligible to participate in the HM Revenue and Customs (HMRC) approved Prudential Savings-Related Share Option Scheme. This scheme allows all eligible employees to save towards the exercise of options over Prudential plc shares with the option price set at the beginning of the savings period at a discount of up to 20 per cent of the market price.

Since 2014 participants have been able to elect to enter into savings contracts of up to £500 per month for a period of three or five years. At the end of this term, participants may exercise their options within six months and purchase shares. If an option is not exercised within six months, participants are entitled to a refund of their cash savings plus interest if applicable under the rules. Shares are issued to satisfy those options which are exercised. No options may be granted under the schemes if the grant would cause the number of shares which have been issued, or which remain issuable pursuant to options granted in the preceding 10 years under the scheme and any other option schemes operated by the Company, or which have been issued under any other share incentive scheme of the Company, to exceed 10 per cent of the Company's ordinary share capital at the proposed date of grant.

Details of Executive Directors' rights under the SAYE scheme are set out in the 'Outstanding share options' table.

Share Incentive Plan (SIP)

UK-based Executive Directors are also eligible to participate in the Company's Share Incentive Plan (SIP). From April 2014, all UK-based employees were able to purchase Prudential plc shares up to a value of £150 per month from their gross salary (partnership shares) through the SIP. For every four partnership shares bought, an additional matching share is awarded which is purchased by Prudential on the open market. Dividend shares accumulate while the employee participates in the plan. If the employee withdraws from the plan, or leaves the Group, matching shares may be forfeited.

The table below provides information about shares purchased under the SIP together with matching shares (awarded on a 1:4 basis) and dividend shares.

	Year of initial grant	Share Incentive Plan awards held in Trust at 1 Jan 2017 (number of shares)	Partnership shares accumulated in 2017 (number of shares)	Matching shares accumulated in 2017 (number of shares)	Dividend shares accumulated in 2017 (number of shares)	Share Incentive Plan awards held in Trust at 30 Jun 2017 (number of shares)
John Foley	2014	433	54	14	8	509
Nic Nicandrou	2010	1,644	54	14	29	1,741
Mike Wells	2015	270	54	13	5	342

Cash-settled long-term incentive awards

This information has been prepared in line with the reporting requirements of the Hong Kong Stock Exchange and sets out Executive Directors' outstanding share awards and share options. For details of the cash-settled long-term incentive awards held by some Executive Directors, please see our Annual Report.

Shareholder information

Dividends

2017 first interim dividend	Shareholders registered on the UK register and Irish branch register	Shareholders registered on the Hong Kong branch register	Holders of US American Depositary Receipts	Shareholders with ordinary shares standing to the credit of their Singapore CDP securities accounts
Ex-dividend date	24 August 2017	24 August 2017	24 August 2017	23 August 2017
Record date	25 August 2017	25 August 2017	25 August 2017	25 August 2017
Payment of 2017 first interim dividend	28 September 2017	28 September 2017	On or about 5 October 2017	On or about 5 October 2017

Shareholder enquiries

For enquiries about shareholdings, including dividends and lost share certificates, please contact the Company's registrars:

By post	By telephone
Equiniti Limited Aspect House Spencer Road Lancing West Sussex BN99 6DA	Tel 0371 384 2035 Textel 0371 384 2255 (for hard of hearing) Lines are open from 8.30am to 5.30pm, Monday to Friday. International shareholders tel +44 (0)121 415 7026

Dividend mandates

Shareholders may have their dividends paid directly to their bank or building society account. If you wish to take advantage of this facility, please call Equiniti Limited (Equiniti) and request a Cash Dividend Mandate form. Alternatively, shareholders may download a form from www.prudential.co.uk/investors/shareholder-centre/forms

Cash dividend alternative

The Company has a Dividend Re-investment Plan (DRIP).

Shareholders who have elected for the DRIP will automatically receive shares for all future dividends in respect of which a DRIP alternative is offered. The election may be cancelled at any time by the shareholder. Further details of the DRIP and the timetable are available on the Company's website at www.prudential.co.uk/investors/shareholder-centre/dividend-information/cash-dividend

Electronic communications

Shareholders are encouraged to elect to receive shareholder documents electronically by registering with Shareview at www.shareview.co.uk. This will save on printing and distribution costs, and create environmental benefits. Shareholders who have registered will be sent an email notification whenever shareholder documents are available on the Company's website and a link will be provided to that information. When registering, you will need your shareholder reference number which can be found on your share certificate or proxy form. The option to receive shareholder documents electronically is not available to shareholders holding shares through The Central Depository (Pte) Limited (CDP) in Singapore. Please contact Equiniti if you require any assistance or further information.

Equiniti Shareview service

Information on how to manage shareholdings can be found at https://help.shareview.co.uk

The pages at this web address provide the following:

— Answers to commonly asked questions regarding shareholder registration;

— Links to downloadable forms, guidance notes and Company history factsheets; and

— A choice of contact methods – via email, telephone or post.

Share dealing services

The Company's registrars, Equiniti, offer a postal dealing facility for buying and selling Prudential plc ordinary shares; please see the Equiniti address above or telephone 0371 384 2248. They also offer a telephone and internet dealing service, Shareview, which provides a simple and convenient way of selling Prudential plc shares. For telephone sales call 0371 384 2780 between 8.30am and 4.30pm, Monday to Friday excluding UK bank holidays, and for internet sales log on to www.shareview.co.uk/dealing

ShareGift

Shareholders who have only a small number of shares, the value of which makes them uneconomic to sell, may wish to consider donating them to ShareGift (Registered Charity 1052686). The relevant share transfer form may be obtained from our website www.prudential.co.uk/investors/shareholder-centre/forms or from Equiniti. Further information about ShareGift may be obtained on +44 (0)20 7930 3737 or from www.ShareGift.org

There are no implications for capital gains tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief.

Irish branch register

The Company operates a branch register for shareholders in Ireland. All enquiries regarding Irish branch register accounts should be directed to Capita Asset Services, Shareholder solutions (Ireland), PO Box 7117, Dublin 2, Ireland
Tel + 353 1 553 0050

Hong Kong branch register

The Company operates a branch register for shareholders in Hong Kong. All enquiries regarding Hong Kong branch register accounts should be directed to Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
Tel +852 2862 8555

Singapore branch register

Shareholders who have shares standing to the credit of their securities accounts with The Central Depository (Pte) Limited (CDP) in Singapore may refer queries to the CDP at 9 North Buona Vista Drive, #01-19/20, The Metropolis, Singapore 138588.
Tel +65 6535 7511

Enquiries regarding shares held in Depository Agent Sub-accounts should be directed to your Depository Agent or broker.

American Depositary Receipts (ADRs)

The Company's ordinary shares are listed on the New York Stock Exchange in the form of American Depositary Shares, evidenced by ADRs and traded under the symbol PUK. Each American Depositary Share represents two ordinary shares. All enquiries regarding ADR holder accounts should be directed to JP Morgan, the authorised depositary bank, at JP Morgan Chase Bank, N.A., PO Box 64504, St Paul, MN 55164-0854, USA.
Tel general +1 800 990 1135 or from outside the US +1 651 453 2128 or log on to www.adr.com

Board

Paul Manduca
Chairman

Mike Wells
Group Chief Executive

Mark FitzPatrick
Chief Financial Officer

Penny James
Group Chief Risk Officer

John Foley
Chief Executive,
M&G Prudential

Anne Richards
Deputy Chief Executive,
M&G Prudential and
Chief Executive, M&G

Nic Nicandrou
Chief Executive,
Prudential Corporation Asia

Barry Stowe
Chairman and Chief Executive Officer
of North America Business Unit

Group Executive Committee

Julian Adams
Group Regulatory and
Government Relations Director

Raghu Hariharan
Director of Strategy and
Capital Market Relations

Jonathan Oliver
Group Communications Director

Alan Porter
Group General Counsel and
Company Secretary

Al-Noor Ramji
Group Chief Digital Officer

Tim Rolfe
Group Human Resources Director

Our businesses

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International shareholders
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Irish Branch Register Private Shareholder Enquiries
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Hong Kong Branch Register Private Shareholder Enquiries
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US American Depositary Receipts Holder Enquiries
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The Central Depository (Pte) Limited Shareholder Enquiries
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Prudential public limited company

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Registered office

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London EC4R 0HH
Registered number 1397169

www.prudential.co.uk

Principal place of business in Hong Kong

13th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Prudential plc is a holding company, subsidiaries of which are authorised and regulated, as applicable, by the Prudential Regulation Authority and the Financial Conduct Authority.

Forward-looking statements

This document may contain 'forward-looking statements' with respect to certain of Prudential's plans and its goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements that are not historical facts, including statements about Prudential's beliefs and expectations and including, without limitation, statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks' and 'anticipates', and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore undue reliance should not be placed on them. By their nature, all forward-looking statements involve risk and uncertainty. A number of important factors could cause Prudential's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement. Such factors include, but are not limited to, future market conditions, including fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, and the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives; the political, legal and economic effects of the UK's decision to leave the European Union; the impact of continuing designation as a Global Systemically Important Insurer or 'G-SII'; the impact of competition, economic uncertainty, inflation and deflation; the effect on Prudential's business and results from, in particular, mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of internal projects and other strategic actions failing to meet their objectives; the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate; and the impact of legal and regulatory actions, investigations and disputes. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. Further discussion of these and other important factors that could cause Prudential's actual future financial condition or performance or other indicated results to differ, possibly materially, from those anticipated in Prudential's forward-looking statements can be found under the 'Risk Factors' heading in this document.

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Providing financial security since 1848

Successive generations have looked to Prudential to safeguard their financial security – from industrial workers and their families in Victorian Britain, to around 24 million insurance customers worldwide today. Our financial strength, heritage, prudence and focus on our customers' long-term needs ensure that people continue to turn to our trusted brands to help them plan for today and tomorrow.

1848
Prudential is established as Prudential Mutual Assurance Investment and Loan Association in Hatton Garden, London, offering loans and life assurance to professional people.

1854
Prudential opens the Industrial Department to sell a new type of insurance, Industrial Insurance, to the working classes, for premiums of a penny and upwards.

1923
Prudential's first overseas life branch is established in India, with the first policy being sold to a tea planter in Assam.

1949
The 'Man from the Pru' advertising campaign is launched.

1986
Prudential acquires Jackson in the United States.

1994
Prudential Corporation Asia is formed in Hong Kong as a regional head office to expand operations beyond an existing presence in Malaysia, Singapore and Hong Kong.

1999
Prudential acquires M&G, pioneer of unit trusts in the UK and a leading provider of investment products.

2000
Prudential and CITIC launch the first Sino-British life insurance joint venture in China.

2014
Prudential acquires businesses in Ghana and Kenya, marking its entry into the fast-growing African life insurance industry.

2017
M&G and Prudential UK & Europe combine to form M&G Prudential, a leading savings and investments business ideally positioned to target growing customer demand for comprehensive financial solutions.

www.prudentialhistory.co.uk

Fred's story

In June 1949, an article describing the life and work of a long-serving Prudential agent, Fred Sawyer, appeared in the Weekly Illustrated magazine. One of the pictures was so striking that it prompted Prudential's publicity department to use it in their next advertising campaign, and the figure of Fred Sawyer came to represent a typical agent.

'"Service," says Pru agent Sawyer, "is the secret of success". He has 1,500 clients and collects in the morning and evening, fitting in clerical work in the afternoon. But he still finds time to be a special constable, a school manager and a district councillor. "I know the people," says Mr Sawyer, "I wouldn't change my job for any other."'

Weekly Illustrated magazine June 1949

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www.prudential.co.uk

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